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writes Kieran Cook

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# FINANCIAL TIMES

Europe's Business Newspaper THURSDAY SEPTEMBER 9 1993 D8523A

## 19 S African black commuters killed in street attack

About 10 gunmen shot dead 19 blacks and wounded 22 as they waited at a taxi rank in Wadeville, east of Johannesburg. The attack came the day after black and white negotiators reached agreement on setting up a transitional council that would help run the country until the nation's first multiracial election, planned for April. World re-examines Pretoria policy, Page 7

**EC commissioner warns on low pay:** The European Community's jobs crisis should not be tackled by dismantling EC social provisions or driving down wages, Padraig Flynn (left), EC social affairs and employment commissioner, said, as opinion among his Commission colleagues and the 12 member states leans towards labour market deregulation and lower labour costs. Page 18

**Bosnia Muslims seek US backing:** Bosnia's Muslim president Alija Izetbegovic prepared to take the case for the west to put pressure on the Croats and Serbs directly to the White House, in a desperate attempt to muster international support. Page 3

**French railway acts on new system:** France's national railway announced measures to restore its image as one of Europe's most efficient services after the introduction of a computer booking system, called Socrates, which created chaos. Page 18

**Asea Brown Boveri, Swiss-Swedish engineering company,** launched a range of advanced gas turbines in an attempt to move ahead in the fast-growing \$12bn market for combined-cycle power stations. Page 4

**Nagorno-Karabakh talks:** Hopes rose for an end to the war between two newly independent former Soviet states for control of the Nagorno-Karabakh region, after Haydar Aliyev, acting head of state of Azerbaijan, offered talks with Armenian leaders. Page 3

**Tokyo ponders economic boost:** The Japanese government is considering a new public spending package and cuts in income tax to help keep the economy from recession. Page 7

**Total, the French oil group,** underlined its resilience to recession in Europe by announcing a modest decline in first half net profits from FF1.9bn to FF1.8bn (\$316m).

**IRI, the Italian state holding company,** has abandoned plans for the trade sale of its majority stakes in Banca Commerciale Italiana and Credito Italiano in favour of public share offerings. Page 19; Brussels tightens Italian aid curbs, Page 3

**Unilever, the Anglo-Dutch consumer products group,** is to buy the ice cream business of Kraft General Foods, part of Philip Morris, the tobacco and food group, in a deal estimated at about \$300m. Page 19; Lex, Page 18

**Delhi acts on share upset:** The Indian finance ministry acted to end uncertainty in the country's stock markets caused by an income tax probe into the affairs of Harshad Mehta, the broker at the centre of last year's Bombay securities scandal. Page 6

**NTT, the Japanese telecommunications company,** warned that pre-tax profits for the year to next March would fall 67 per cent to ¥50bn (\$472m) from a previously forecast ¥150bn if it went ahead with a reduction in long-distance rates. Page 20

**P&O, Peninsular and Oriental Steam Navigation Company,** saw pre-tax profits almost doubled to £281.6m (\$440m), but pre-tax profits before disposals fell 11 per cent to £20.1m from £21.2m. Page 19; Lex, Page 18

**Baxter International, US hospital supplier,** warned that its third-quarter earnings would fall below last year's \$148m, or 53 cents a share. Analysts had predicted earnings of more than 57 cents. Page 19

**Carnaudmetalbox (CMB), Anglo-French packaging group,** saw a 7 per cent fall in first-half net profits to FF750m (\$89.8m). Page 20

**Eighteen Miami tourists killed:** A German tourist was shot dead as he drove his rental car in Miami. It was the latest in a string of attacks on foreign tourists in the resort which have killed eight in the past year.

STOCK MARKET INDICES			STERLING		
FT-SE 100	3,335.4	(-3.2)	New York Composite	1,507	
Yield	3.79		London	1.5405	(1.5429)
FT-SE Euroshare 100	1,269.53	(-10.88)	DM	2.435	(2.435)
FT-AF Share	1,593.36	(-0.14)	FF	8.785	(8.745)
Midi	20,918.19	(-43.91)	Sfr	2.1925	(2.185)
New York: S&P 500	3,383.63	(-23.47)	Y	162.75	(160.5)
Dow Jones Ind	5,933.63	(-23.47)	£ Index	81.5	(81.3)
S&P Composite	454.06	(-3.86)			
US LONG-TERM RATES			DOLLAR		
Federal Funds	3.14		New York Composite	1,507	
3-mo Treas Bill	3.0125		DM	1.515	(1.515)
Long Bond	4.51		FF	1.689	(1.689)
Yield	5.81%		Sfr	1.4285	(1.4285)
LONDON MONEY			Y	162.75	(160.5)
3-mo interbank	3.14	(3.14)	£ Index	81.5	(81.3)
Life long (11/4)	11.4				
NORTH SEA OIL (Aargau)					
Life long (11/4)	11.4				
Brut 15-day (Oct)	11.4	(16.14)			
GOLD					
New York Comex (Oct)	333.8	(32.2)			
London	331.25	(34.25)			

Austria	SE100	Germany	DAX	Italy	MI	Spain	IBEX	UK	FTSE
Belgium	BEL20	Hungary	BUX	Netherlands	AEX	Sweden	SX	Switzerland	SIX
Denmark	OMX	Poland	GPW	Portugal	BVL	South Africa	JSE	Taiwan	TSE
France	CAC40	Romania	BVB	Slovakia	SAX	USA	DOW	Thailand	SET
Greece	ATHEX	Slovenia	VLX	Turkey	BIST	Yugoslavia	BEL		
Ireland	ISEQ								
Japan	Nikkei								
Korea	KOSPI								
Malaysia	KLSE								
Norway	OSLO								
Philippines	PSE								
South Africa	JSE								
Sweden	SX								
Switzerland	SIX								
Taiwan	TSE								
Thailand	SET								
Turkey	BIST								
Yugoslavia	BEL								

## VW chairman reiterates his support for López

**MR FERDINAND PIÉCH,** Volkswagen's embattled chairman, who is fighting charges that his company stole secrets from its rival, General Motors, sees enemies all around. There are even some working against him inside his own senior management, he says.

They are fighting a losing battle. What he sees as the attempts by his opponents at Adam Opel, the German subsidiary of General Motors, to discredit his controversial production director, Mr José Ignacio López de Arriortúa, worry him least of all.

### Christopher Parkes in Frankfurt finds embattled Piéch in fighting mood

In a frank and wide-ranging interview with the Financial Times, Mr Piéch offered few concessions and no concessions to his antagonists. Instead, he made plain that he sees everything that is going on - both beyond the factory gates and behind his back.

He presented the face of a man at home with and master of the most extraordinary imbroglio in Germany's recent business history. It is, after all, his own cre-

### GM calls for co-operation in probe

ation. "My creativity costs money and someone has to stop me," he says.

The person in this instance is Mr López, under investigation for theft and industrial espionage against Opel, his former employer, and Mr Piéch's "soul-mate".

Mr López is the man for whom, he says repeatedly, "I would put my hand in the fire". He was hired to rationalise VW production and squeeze ballooning

### FT World Motors Conference

costs. Mr Piéch makes no exceptions for himself. Like Mr Piéch, he is a skilled cost-cutter, a zealot, and a rare friend and ally against the VW chief's private demons: corporate bureaucracy and traditional German manufacturing practice.

Before Mr Piéch took charge last January, he was advised to clear out all the old management. "But I didn't do so... and as a result there are still too many dead bodies in the cellar."

### Survey: World Car Industry

The resistance to him is still there, even though Mr Piéch has made wholesale changes to the executive board and purged six of VW's former nine management layers. There are those who work against him, leaking and gossiping, forgetting that he has mastered other personal crises before and learnt from the experience.

He relates with some feeling his struggle in the late 1980s to take the wheel at Audi, VW's quality-car division. But Mr

### Continued on Page 18

FT Conference on world motors, Page 4; World car market, Survey, Section III

## EC offers \$575m aid package to West Bank

By Lionel Barber in Brussels

THE EUROPEAN Commission yesterday injected fresh momentum into the Middle East peace process by unveiling plans for a \$575m (£575m) five-year aid package for the occupied West Bank and Gaza Strip.

The funds are intended to encourage the Israelis and Palestinians to capitalise on the historic breakthrough on self-rule in the occupied territories and reach a full settlement.

In a linked move, Mr Hans van den Broek, EC commissioner responsible for external political affairs, appealed to Syria and Lebanon to end their boycott of the multilateral talks on regional co-operation in order to complete the process of reconciliation between the Arabs and Israel.

The Commission aid package, which must be approved by the 12 EC member states, is part of a three-pronged Middle East policy. This includes forthcoming negotiations on a new partnership agreement between the Community and Israel; aid to the occupied territories; and a concerted effort to use EC money and expertise to promote closer regional co-operation between Israel and its Arab neighbours.

A senior Brussels official said a draft EC negotiating mandate would propose offering Israel an updated 1975 trade agreement and closer political ties. "Put crudely, they will receive a little more than the Maghreb but less than Poland," he said.

The EC initiative comes amid accelerating international moves to channel millions of dollars to the Middle East, intended to cement regional peace efforts.

Officials from Israel, Jordan, Egypt, the Palestine Liberation Organisation and the Gulf states are to meet at the World Bank on September 20 to discuss new infrastructure including roads, communications and water.

Mr Manuel Marín, the Spanish Commissioner responsible for EC development policy, said the EC funds for the occupied territories would be split equally between EC grants and EC loans from the European Investment Bank.

The grants would cover education, food aid, and health projects; while the EIB loans would be used to attract private capital into much-needed infrastructure.

Mr Marín drew a parallel yesterday between developments in the Middle East and the Franco-German reconciliation in the 1950s which led to the European Coal and Steel Community, a precursor of the EC. "The only way for lasting stability is greater regional co-operation," he said.

The EC is already the chief supplier of aid to the Palestinians, raising its contribution from £200m this year to £250m this year. The latest aid package will be drawn from existing funds and require cuts in other unspecified areas.

Although there appears to be political will behind a greater aid effort, some senior EC officials were cautioning that member states may be reluctant to let the Commission take the lead role.

The UK, France and Germany are understood to have raised objections in recent days about any Brussels move to use the Middle East peace process as a test-vehicle for the common security and foreign policy as set out in the Maastricht treaty.

Resignation hits Rabin, Page 8



Ferdinand Piéch, right, in Frankfurt with Ulrich Seiffert, responsible for research and development, and recently reinstated to the board

## GM calls for co-operation in probe

By Kevin Done, Motor Industry Correspondent, in Frankfurt

VOLKSWAGEN should start to co-operate fully with the investigation by the public prosecutors of the alleged theft of secret documents from General Motors, the US carmaker and from Opel, its German subsidiary, in connection with the defection to Volkswagen in March of Mr José Ignacio López de Arriortúa, GM's former global purchasing director, with several of his former GM colleagues.

Mr López is now the VW group's production and purchasing director. The prosecutors

image that is being hurt by all the public discussion.

The public prosecutors have been investigating for more than four months the alleged theft of thousands of confidential documents from General Motors, the US carmaker and from Opel, its German subsidiary, in connection with the defection to Volkswagen in March of Mr José Ignacio López de Arriortúa, GM's former global purchasing director, with several of his former GM colleagues.

Mr López is now the VW group's production and purchasing director. The prosecutors

progress in the investigation, he said.

Mr Hughes said yesterday: "It would be good if Mr Piéch [VW chief executive] and Mr [Klaus] Liesen [chairman of the VW supervisory board] would send a letter to VW employees saying that, without any danger to their job security or their relationship with their supervisors, they should say what they know of this case."

"It was 'incredible' that VW had admitted a few weeks ago that the defectors had had GM

Continued on Page 18

## Farm trade deal cannot be renegotiated, France told

By David Buchanan in Paris

THERE CAN be "no renegotiation" of the farm trade agreement made last year between the US and the European Community, Mr Peter Sutherland, director-general of the Gatt world trade organisation, warned Mr Edouard Balladur, the French prime minister yesterday.

After talks between the two in Paris yesterday, Mr Sutherland said "a significant number" of the 108 countries negotiating in Gatt did not want the draft agreement to be reopened.

France, under pressure from the militant French farmers' lobby, has demanded changes to the accord, which foresees cuts in EC agricultural export subsidies.

EC and Gatt officials have warned France that reopening the deal would make December 15 impossible as a deadline for a

new world trade agreement in the Uruguay Round of Gatt talks.

There was "only one opportunity left" to finish the Gatt negotiations, Mr Sutherland told the French prime minister yesterday, and that was to finish them by the December 15 deadline.

The deadline, he added, "has been set by the negotiating parties, not by me".

Mr Balladur, however, indicated that legally the Blair House farm agreement, which the EC negotiated with Mr George Bush, then US president, had never been properly concluded. He insisted - and Mr Sutherland concurred in remarks after his meeting - that "there is no European position until the EC Council of Ministers decides".

Mr Balladur, according to French officials, characterised the December 15 deadline as "an American date", inserted for US

political convenience. He went on: "Be sure that I want a Gatt agreement, but I ask that all should make an effort, not just the French." France's position, Mr Balladur said, was "not all or nothing", a stance which he said other countries should adopt.

The Blair House accord will be discussed by EC foreign ministers this weekend and by farm and foreign ministers at a special session on September 20.

France has recently revived its threat to veto the farm accord with the US, which it claims goes far beyond EC farm reform and menaces France's position as the world's number two agricultural exporter.

Mr Sutherland reported that France's "vital interests" were at stake, language traditionally used to justify a national veto within the EC.

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## NEWS: EUROPE

# Progress on EC steel restructuring

By Andrew Baxter

THE RESTRUCTURING of the recession-torn European steel industry took a step forward yesterday when the European Commission agreed a loan scheme to help producers make capacity cuts.

The scheme is a key element in the European Community's efforts to enable the industry to shed 30m tonnes in excess crude steel capacity.

But steel industry observers warned last night that the much-needed restructuring of the industry - most of which is losing money heavily in spite of recent price increases - still faces big obstacles before it can be implemented.

The Commission said it would provide loans to companies, grouped along three product lines, which agreed to pool funds to finance capacity cuts made by the end of next year.

The loans would be paid back by the companies which did not cut capacity. Officials said the fund would earmark about Ecu1bn (\$1.17bn) to cover capacity cuts of 6m tonnes of hot-rolled coil and strip, 2m tonnes of plates and 2.5m tonnes of heavy section.

The product-based loan scheme is one of the less controversial elements of the steel restructuring plan. Even so, it is reported that approval has already been postponed once because some commissioners queried what repayment guarantees the steelmakers would give. But agreement on the loan scheme could at least restore some momentum to the restructuring effort, whose original timetable has begun to look unrealistic.

In February, the Commission

gave steelmakers until September 30 to present closure programmes to qualify for its rescue plan.

However, the original timetable has slipped because of the deadlock in the summer in the Commission's negotiations over state subsidies, notably with the Italian government in relation to the struggling Ilva steel group.

The Commission has still not resolved this case, or that involving the Spanish steel industry. The sticking point is the amount of capacity, and jobs, that producers are prepared to cut in return for receiving the state subsidies.

But private sector companies want the subsidy issue resolved before agreement can be reached on any capacity cuts they might offer. Some private sector producers have become increasingly exasperated at the lack of progress.

Last month, a select committee of the UK's House of Lords entered the debate with a strongly-worded report that warned against further state subsidy to support inefficient production. It said the restructuring plans could be put at risk unless a strict timetable is enforced to settle outstanding disagreements on state aids.

The report said restructuring of the EC steel sector was long overdue, and warned that excess capacity hit profitability throughout the industry. It said there was "a real danger" that efficient private companies could suffer at the expense of inefficient state producers. The subsidies issue will be discussed by EC industry ministers on September 21. The ministers must also review the loan scheme.

# Kohl v Scharping ends in draw

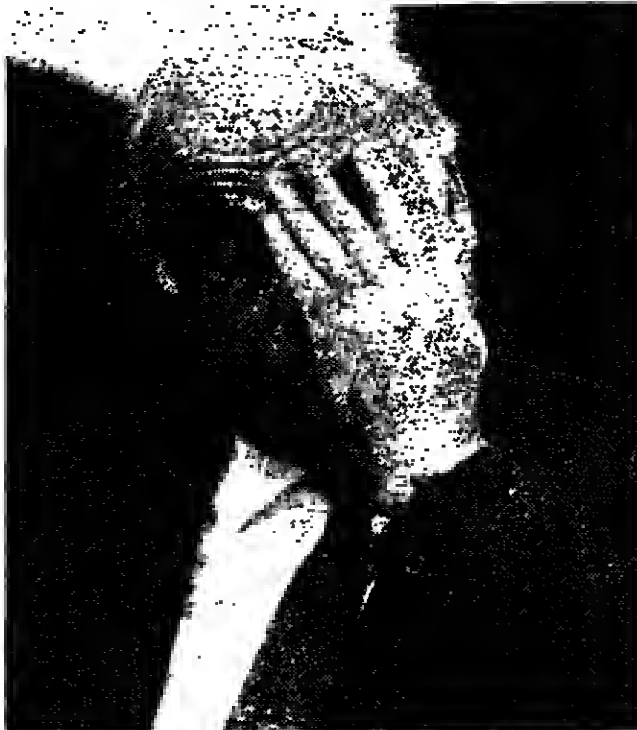
By Quentin Peel in Bonn

IT WAS a taste of things to come: the first public clash of party leaders, Kohl against Scharping, the two certain combatants for next year's battle royal in the German elections, meeting each other for the first time across the floor of the German Bundestag.

For those with a fine eye and ear for the parliamentary scrap, it was a surprisingly dignified affair. Whatever divides the two gentlemen from the Rhineland Palatinate, they clearly share a mutual respect.

The youthful Mr Rudolf Scharping, 45, barely 100 days in office as leader of the Social Democrats (SPD), delivered an hour-long onslaught on the record of his rival with only a handful of notes to guide him. He steered clear of personal invective, stuck to the issues of unemployment, social spending, and the soaring budget deficit, and his opponents were obviously impressed.

As for Chancellor Helmut Kohl, the charges against his government of incompetence, lack of vision and failure of leadership simply rolled off his broad back. He gave the occasional word of advice on how his young challenger might one day hope to fill his



Chancellor Kohl was painfully countering towards SPD leader Rudolf Scharping yesterday but honours were even

office. It was painfully countering.

However, Mr Wolfgang Schäuble, parliamentary leader of Mr Kohl's Christian Democratic Union, and the big man's hair, showed

he remains a street-fighter in spite of being confined to a wheelchair. He accused Mr

Ingrid Matthies-Maler, the SPD shadow finance minister, of sporting "unutterable rubbish" in her budget speech,

causing that normally unflappable lady to storm out of the chamber.

Mr Scharping only put one foot wrong: he suggested that even if the chancellor had firmly squashed talk of curb-

ing old age pensions at this stage, his party would surely come back to its nefarious plans "after the elections in 1994", implying that the CDU would win. It was a small slip, on a day with honours even.

# Russia and US build on military ties

RUSSIAN and US defence leaders met yesterday to further improve military ties between Moscow and Washington, and to discuss nuclear and other issues, Reuters reports from Washington.

General Pavel Grachev, the Russian defence minister, and US defence secretary, Mr Les Aspin, met at the Pentagon to sign a defence co-operation agreement as the two countries rapidly build bridges.

The two met in Germany

three months ago and said then that the agreement would pave the way for a range of moves, including joint peacekeeping manoeuvres.

One future exercise is expected to involve Russia's big 27th Motorised Rifle Division and the 3rd US Infantry Division based at Frankfurt.

Mr Aspin said that future joint peacekeeping exercises could take place in Russia, the US and Europe.

Yesterday's agreement also improves telephone communications between the US and Russian defence ministries, enabling Gen Grachev and Mr Aspin, as well as top military officers, to discuss issues on a regular basis.

At the Pentagon last week, senior Russian and US defence officials signed two agreements providing additional US assistance to help Russia destroy the weapons.

The nuclear agreements signed at the Pentagon last week provide \$85m in US

equipment and training to help build a storage facility in Russia for nuclear material taken from former Soviet warheads and for protection of civilian nuclear material in Russia.

The agreements, along with other nuclear aid memoranda already signed, brought to \$370m the total being provided by Washington to Moscow to destroy nuclear arms and protect nuclear material from falling into terrorist hands.

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# Norway's Labour party well ahead

By Hugh Carnegie and Karen Fossli in Oslo

NORWAY'S ruling Labour party has widened its lead over its rivals and is set to remain in power after next Monday's general election, according to an opinion poll published today.

The poll, published in Aftenposten, Norway's leading daily newspaper, suggested that support for Prime Minister Gro Harlem Brundtland's Labour party had surged three points to 37.4 per cent compared with a week ago.

The main opposition Conservative party slipped for the second week in succession, this time by 0.6 points to 19.4 per cent.

Labour's gains appeared to be at the expense of the Socialist Left (SV) party, with which it has agreed to co-operate after the election on most issues, except the European Community. The SV's support fell by 2.5 points to 10.3 per cent.

Political analysts said the Labour party's strategy to play down the issue of Norway's

application to join the EC appeared to be paying off. Labour party support in the application but membership is opposed by most Norwegians, according to polls.

Today's poll was taken after Mrs Brundtland had campaigned in the staunchly anti-EC north of the country where she told fishermen that a vote for Labour did not mean an endorsement of EC membership. She said the issue would be decided in a referendum to be held by 1995.

Her approach seemed to have blunted the attraction of the anti-EC SV, which has made the issue of membership a key part of its campaign.

The anti-EC Centre party, heavily supported by Norway's highly subsidised farmers, managed to progress in the poll by 1.1 points to 11.7 per cent, almost double its vote in the 1989 election.

The right-wing Progress party, meanwhile, continued its poor showing in the polls, shedding 1.1 points. Its support now stands at only 6.6 per cent of the electorate.

# Norwegians turn a deaf ear to right

A conservative economic message finds no echo, write Hugh Carnegie and Karen Fossli

NORWAY'S Conservative party, fighting an uphill battle against the ruling Labour party in next Monday's general election, came up last month with a telling message on the deteriorating state of the public finances.

Mrs Kaci Kullmann-Five, the opposition leader, picked up on a reference made during the last election campaign in 1989 by Prime Minister Gro Harlem Brundtland, who told a group of schoolchildren that the government should no more over-spend than their parents should buy Mercedes cars they could not afford.

In fact, said the Conservative leader, government deficit spending over the past three years amounted to the purchase of more than 300,000 Mercedes, and Labour's plans for the next four years would add another 400,000.

The problem for the Conservatives, who are slipping in the polls, is that few Norwegians appear to be listening. On the contrary, the minority Labour government is making much of an improvement in the oil-dependent economy since it took over from a Conservative-led coalition in 1990 in the midst of

recession. Last year, gross domestic product grew by 3.3 per cent. Even excluding North Sea oil and shipping revenues, the economy grew by 2 per cent. Much the same performance is expected this year, with a slight improvement forecast for 1994.

Oil and gas production rose sharply, with crude oil output rising by 14 per cent to a record 2.22m barrels per day. This year, average daily oil production is expected to hit 2.28m barrels.

More tangibly, as far as voters' pockets are concerned,

interest rates and inflation have tumbled. Inflation is set to rise slightly to 2.75 per cent for the year as a whole, but at its current level of 2.3 per cent is the lowest in Norway for three decades.

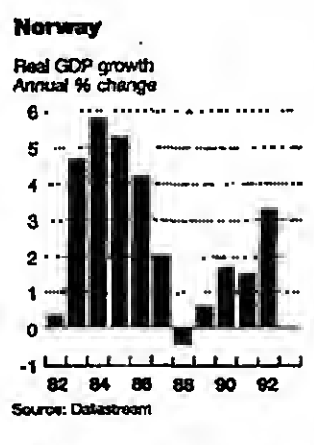
Meanwhile, the Bank of Norway has cut its key overnight lending rate no less than 12 times this year from 11 per cent in January to 5.5 per cent today.

The three-month domestic Euro-rate stands at 6.2 per cent, compared with 6.6 per cent in Germany and 7.7 per cent for the Ecu.

The less good news concerns unemployment. The real jobless rate has grown steadily to 8.2 per cent of the workforce in August and will not stabilise until next year.

Compared with its neighbours, Finland and Sweden, Norway has escaped lightly, given that it shares many of the same characteristics of high welfare and production costs and indulged in the same credit-led boom in the late 1980s.

Finland and Sweden have both seen their economies



Source: Datastream

shrink for three years in succession and anticipate only a modest return to growth next year. Unemployment in Finland has topped 20 per cent and is at 13 per cent in Sweden.

But the jobless rate in Norway still stands at its highest level since the second world war and is a top political priority. So Mrs Brundtland's Labour party, relying on the safety net of oil, has made no bones about using fiscal policy to boost the economy.

The result has been a steady slide into deficit from a budget surplus equivalent to 0.5 per cent of GDP in 1990 to a forecast deficit this year equal to 7.5 per cent of GDP.

Excluding oil, the figure shoots up further to a deficit of 12.6 per cent of GDP. Government forecasts are also based on a projected oil price of \$19 per barrel, a level significantly above current prices.

It is not just Mrs Kullmann-Five who has attacked the issue of the deficit. Mr Hermod Skanland, the governor of the Bank of Norway, has been a persistent critic.

"We can no longer base growth and employment on government stimulation of demand," he said in a speech early this year. "Other countries have previously had to embark on the far more difficult path of adopting structural policy measures to improve the functioning of the economy."

What critics like Mr Skanland are worried about is a long-term weakening of the non-oil economy at a time when the benefits of oil revenues should be being used to reform and strengthen what is usually known in Norway as the mainland economy.

They want to see, among other changes, government deficits curbed to allow for an easing of Norway's high taxes and measures, such as changes in labour market practices, to improve competitiveness and expand Norway's narrow non-oil manufacturing base.

As the Conservatives are finding, however, it is a call that has received little echo in the election campaign among voters whose belief seems to be that the hard times are behind them.

On Monday night, protesters sacked the plant's offices and set fire to a main road by pouring highly toxic phosphorus on it after ENI, the state energy group, said it would lay off 80 per cent of the workforce at its Enichem plant in Crotona.

Unions have accused ENI of acting irresponsibly over the Crotona lay-offs and warned that violence could break out in other high unemployment areas. Union leaders said that decisions like ENI's in Crotona, or the sacking of 2,000 municipal workers in Naples, were either sheer stupidity or a deliberate ploy to make the south explode.

THE FINANCIAL TIMES Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60313 Frankfurt am Main, Germany. Telephone +49 69 156 850, Fax +49 69 996481, Telex 416193. Represented by Edward Hugo, Managing Director, Marking GmbH, Admiral-Rosenbaum-Straße 38, 63353 Neu-Isenburg (owned by Hüttenberg International).

Responsible Editor: Richard Lambert, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Germany) Ltd. and F.T. (Germany) of the above mentioned two companies. Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Sed.

FRANCE: Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75004 Paris Cedex 01. Telephone (01) 4297 4621, Fax (01) 4297 0629. Printer: S.A. Nord Edito, 1521 Rue de Caen, F-91000 Evry. ISSN: 1148-2733. Commissionaire: Paritaire No 67808D.

DENMARK: Financial Times (Scandinavia) Ltd, Vimmelskålen 42A, DK-1161 Copenhagen K. Telephone 33 13 44 41, Fax 33 93 53 35.

THE Marseillais out of tune

By Alice Rawsthorn in Marseilles

ONE PIECE of graffiti scrawled on a wall outside the Olympique Marseilles football stadium sums up the mood of the city - "Seuls contre tous", or "Alone against everyone".

Marseilles, one of France's most depressed cities, is already painfully accustomed to the loneliness of economic decline and political isolation. The Marseillais now feel more abandoned than ever after this week's decision by the European football authority, Uefa, to exclude Marseilles from this season's European Cup because of allegations of bribery by the club's officials.

Anger will have turned to resentment when it was announced yesterday that rich rivals Monaco, from along the Mediterranean coast, had accepted the French Football Federation's invitation to replace Marseilles in the tournament.

"The French Football Federation could have done something," said Mr Jean-Claude Boisson, a taxi driver who, like most in Marseilles, is a lifelong supporter of the local club.

"But they did nothing to help us - nothing. They're jealous of O-M's success, jealous of Bernard Tapie (the club's chairman) and they don't give



For the people of Marseilles football is a matter of civic pride

a shit about Marseilles." Mr Boisson's anger is typical of the reaction in Marseilles to the Uefa ban. Marseilles, like Liverpool and Naples, conforms perfectly to the cliché of an economically depressed city that has salvaged its civic pride through the triumphs of its football team.

Marseilles, which once prospered as the main trading post between France and its North African colonies, has been in decline since the empire dis-

integrated. These problems have been aggravated by its political position. Marseilles, a socialist stronghold, was shunned by the Gaullist governments of the 1970s and by the socialist administration in the 1980s because Mr Robert Vigouroux, the present mayor, is an independent who clashed with the party establishment.

The city's population has dwindled by 100,000 to 800,000 in the past decade. The level of unemployment is almost twice

the national average at 20 per cent and reaches 30 per cent in the slums. But in recent years the Marseillais have had the consolation of watching their football team become France's most successful. "It's the only thing we've got," said Mr Mario Prossero, a fan.

The Marseilles club owes its success to Mr Tapie, an entrepreneur who took over the club in 1986 after making a fortune by rescuing bankrupt businesses. He has since invested an estimated FF130m (£14.8m) in the team.

His generosity was almost certainly linked to his political ambitions. Mr Tapie has since 1989 been member of parliament for a nearby Bouches-du-Rhône constituency and was briefly urban minister in the last socialist cabinet. However, the football club has flourished, culminating in last season's triumph when it became the first French team to win the European Cup.

The fans are now pinning their hopes on Mr Tapie, who hopes to stand as a future mayor of Marseilles. He will today hold meetings in the city with local officials and bankers, and then address the club's supporters at the stadium.

"He's helped us before and he'll help us again," said Mr Philippe Marciani, another fan.

# Brussels tightens Italian aid curbs

By David Gardner

THE European Commission yesterday reinforced its increasingly tough line on state aid in Italy when it attached strict conditions, applicable to all Italian state holdings, to its authorisation of payments to creditors of Efim, the liquidated state industrial holding.

Yesterday's decision follows a preliminary deal reached in July between Mr Karel Van Miert, EC commissioner for competition, and Mr Beniamino Andreotta, Italian foreign minister, which allowed for repayment of half the bank loans.

Effim was put into liquidation in July 1992 with total debts of nearly L18,000bn (£7.49bn). Financial institutions were owed L9.3bn of this, including more than L3,500bn to foreign banks. The loans were guaranteed by the state under Italian law, and Rome argued it was obliged to honour what amounted to sovereign debt.

The Commission accepted this argument, but in effect held up the deal as part of a wider effort to bring Italian state aid under control. At the time of the July understanding between Brussels and Rome, the Italian government with-drew its plan to write off debts worth Ecu4bn (£3.08bn) run up by Ilva, the steel group.

The two sides are still negotiating the size of the write-off against Commission demands for a sharp reduction in steel capacity, due to be discussed at a special Council of Ministers meeting in two weeks' time. Now, as part of the definitive agreement on Efim, the Italian government will have to:

- Impose a freeze on debt at state-owned companies by the end of 1993;
- Reduce this debt to levels in equivalent companies in the private sector by the end of 1996;
- Revoke the government's loan guarantee arrangements to state-owned companies immediately afterwards;
- Agree to the Commission's joint monitoring of the whole process.

"We have to ensure that in a few years' time the [Italian] state won't come back to us with the same arguments," a spokesman for Mr Van Miert said. The remainder of Efim's debts, largely to suppliers, will be dealt with under normal state aids procedures, the Commission stated.

Italy's labour minister yesterday played down the risk that job riots could spread following violent protests over the threatened closure of a chemical plant in the southern port of Crotona. Reuters reports from Rome.

"There is an emergency, but there will not be 100, 100 or even 1,000 other cases like Crotona," the labour minister, Mr Gino Giugni, told the daily la Repubblica newspaper after workers reacted to lay-off notices by destroying part of their condemned factory.

In Crotona itself, riot police continued to surround the factory which hundreds of workers were occupying.

On Monday night, protesters sacked the plant's offices and set fire to a main road by pouring highly toxic phosphorus on it after ENI, the state energy group, said it would lay off 80 per cent of the workforce at its Enichem plant in Crotona.

Unions have accused ENI of acting irresponsibly over the Crotona lay-offs and warned that violence could break out in other high unemployment areas. Union leaders said that decisions like ENI's in Crotona, or the sacking of 2,000 municipal workers in Naples, were either sheer stupidity or a deliberate ploy to make the south explode.

THE FINANCIAL TIMES Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60313 Frankfurt am Main, Germany. Telephone +49 69 156 850, Fax +49 69 996481, Telex 416193. Represented by Edward Hugo, Managing Director, Marking GmbH, Admiral-Rosenbaum-Straße 38, 63353 Neu-Isenburg (owned by Hüttenberg International).

Responsible Editor: Richard Lambert, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Germany) Ltd. and F.T. (Germany) of the above mentioned two companies. Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Sed.

FRANCE: Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75004 Paris Cedex 01. Telephone (01) 4297 4621, Fax (01) 4297 0629. Printer: S.A. Nord Edito, 1521 Rue de Caen, F-91000 Evry. ISSN: 1148-2733. Commissionaire: Paritaire No 67808D.

DENMARK: Financial Times (Scandinavia) Ltd, Vimmelskålen 42A, DK-1161 Copenhagen K. Telephone 33 13 44 41, Fax 33 93 53 35.

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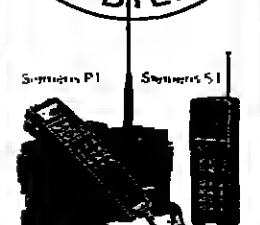
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## SIEMENS

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# Bosnia's Moslems ask for US backing

By Gillian Tett

BOSNIA'S Moslem president Alija Izetbegovic yesterday prepared to take his case directly to the White House, in another desperate attempt to muster international support.

In spite of their accusation that the west has abandoned them, the Bosnians yesterday did little to conceal their belief that the US remains their best hope to pressure the Croats and Serbs into more concessions.

It is a belief that the US seems reluctant to quash. Last week, Mr Warren Christopher, US secretary of state, indicated that the Serbs and Croats

should be blamed for the breakdown of the peace talks. Shortly after, President Bill Clinton made fresh threats of air strikes against the Serbs and Croats. Next week Mr Les Aspin, US defence secretary, is due to visit Sarajevo.

Meanwhile, suspicions remain in some diplomatic quarters that comments from American officials at the Geneva talks last week might have encouraged the Moslems to stall the talks. American and Bosnian officials deny this. However Mr Clinton's decision to receive Mr Izetbegovic as Bosnian president at all is nevertheless seen as a significant gesture of support, though it

US administration official pointed that Bosnia was a state recognised by the US and that Mr Izetbegovic had met Mr Clinton before.

Mr Muhamed Filipovic, a member of the Bosnian government's Geneva delegation, yesterday said: "We know that the Americans have been opposed to the division of Bosnia and still are. And so we have hopes."

Nevertheless, the message to Mr Izetbegovic from President Clinton last night remains ambiguous. Amid continued divisions among the allies - and within the US government itself - over what can be done in the Balkans, Mr Clinton

seems neither ready to demand that the Bosnians accept the peace plan, nor prepared to impose any alternatives.

The indecision reflects the dilemma which Mr Clinton now finds himself in.

As American officials well know, if he fails to act over Bosnia, he is liable to face fresh charges of foreign policy weakness. But if he attempts to act unilaterally, he risks further straining the transatlantic alliance, and possibly weakening his position at home, given limited domestic support for the deployment of US troops in the Balkans.

Faced with this uncertainty, the most that Mr Izetbegovic

could realistically hope for from yesterday's meeting would be a better guarantee that the US will contribute to peacekeeping troops. Indeed, such a guarantee would do much to encourage the Moslems to return to negotiations - tentatively scheduled to start again in 12 days time - in spite of their insistence that they would rather fight on than accept the current peace proposals.

Although military officials in Washington have indicated in recent days that America would be prepared to provide a large part of a peace-keeping force - perhaps up to 30,000 troops - uncertainties remain.

Senior military officials are known to remain opposed to placing American troops under a UN command.

The option that Mr Izetbegovic himself clearly hopes for - American-led air strikes in Bosnia - appears increasingly problematic, in light of the complexity of the situation on the ground.

As an American official recently admitted: "Persuading the rest of Nato to consider air strikes against the Serbs was hard enough. Persuading them to do them against the Croats or Croats and Serbs together will be much harder - particularly with UN troops up on (Mount) Igman."

# A Russian Perot urges end to chaos

By John Lloyd in Moscow

MR Yuri Skokov, a former head of Russia's Security Council yesterday presented himself as the effective leader of a new political grouping which calls for an end to political wrangling. Mr Skokov, a figure often tipped as a future saviour of his country, is counting on support from the majority of people presumed to be sick of politics and politicians.

With the support of Mr Nikolai Travkin, leader of the Democratic Party and Mr Oleg Pospelov, chairman of Russian Television, Mr Skokov said yesterday the group, called Agreement for the Motherland, would organise a gathering of "the peoples and citizens of Russia" next month.

He said the intellectual potential of the country must be harnessed to find a way through the political deadlock gripping Russia, which is preventing either reforms or reaction.

Mr Skokov's group, which won immediate support from Mr Yevgeny Kozhokin, head of the parliament's Security and Intelligence Committee and from Mr Ramazan Abdulatipov, chairman of the House of Nationalities in the Russian Parliament, stands for "an evolutionary path to a federal, democratic and law-governed state".

"People are tired of conflict," he said. "What we offer is self-preservation, survival."

The group, which has caused a stir in the capital because of Mr Skokov's reputation as a

shadowy figure of the corridors of power, is one of several competing and mobile alliances now manoeuvring for popular and financial support before elections which are expected to be called this autumn or, more likely, next spring.

Leading figures such as Mr Yegor Gaidar, the former prime minister, Mr Alexander Rutskoy, the vice president (currently suspended), Mr Grigory Yavlinsky, the leading economist, and Mr Sergei Shakhrai, the deputy prime minister, are criss-crossing the country addressing meetings and giving interviews.

With the exception of Mr Gaidar, whose "Russia's Choice" bloc is proposing free market policies, and the neo-nationalists and neo-communists who have formed a delicate alliance, most of the groups are vying for the centre ground.

Mr Skokov's base is in the regions, where he is assumed to command a good deal of support. He has said that his group is being funded by donations from 20 regional councils.

As a man so far untouched by scandal or allegations of corruption, and with strong links to the Soviet period which is now seen in a positive light by many, he could become a rallying figure for those disenchanted with the democrats who support Mr Yeltsin but find the nationalist/communist alliance too strong a dish, even in today's chaotic society.



Mr Aliyev in Moscow yesterday: he proposed a meeting with Armenian invaders

# Hope of end to Nagorno Karabakh war

## Azeris offer peace talks

By John Lloyd in Moscow

MR Haydar Aliyev, acting head of state of Azerbaijan, yesterday offered immediate talks with Armenian leaders. His move raised hopes for an end to the five-year struggle between the two newly-independent former Soviet states for control of the Armenian-dominated enclave of Nagorno Karabakh, which is within the borders of Azerbaijan.

Mr Aliyev, speaking at a press conference after two days of talks with Russian leaders in Moscow, said: "I have stood and now stand for a peaceful settlement of this situation... it will not be settled by military means."

He refused to be drawn on whether he would trade the independent status of Nagorno Karabakh for return of the 20 per cent of Azerbaijan which

has now been occupied by Nagorno Karabakh forces.

Previously Azerbaijan has refused to contemplate a change of status for Nagorno Karabakh.

The Russian official news agency Itar Tass quoted Mr Levon Ter-Petrosian, the Armenian president, as saying he would be willing to meet Mr Aliyev.

Mr Aliyev, who is to be confirmed as president next month, was formerly first secretary of the Azerbaijan Communist party - and showed yesterday that he retains his aura of authority and appetite for power.

Though he has clamped down on the opposition by jailing leading members of the Popular Front, supporters of the ousted president Mr Abulfaz Elchibey, he presents himself as a man committed to peace and uninterested in the

ferce nationalism espoused by Mr Elchibey.

Mr Hikmet Cetin, the Turkish foreign minister who is in Moscow with a top-level Turkish delegation, said yesterday that the issue had become an international one - and likened Armenia's capture of Azerbaijan land to the invasion of Kuwait by Iraq.

He warned that an Armenian attack on Nakhichevan - the Azerbaijani enclave within Armenia with which Turkey has a small common border and whose security it protects through a 70-year-old treaty - would mean that "the problem may get out of hand".

Mr Cetin disclosed that Iranian forces had crossed a kilometre or two into Azerbaijan - but said it was not a threatening move and was designed only to regulate the flow of refugees from Azerbaijan into Iran.

# A third key reformer resigns in Romania

By Virginia Marsh in Bucharest

MR Aurelian Dochia, head of Romania's privatisation agency, has resigned, becoming the third well-known reformer to leave the government in the past two weeks.

Western businessmen and diplomats in Bucharest said his resignation added to uncertainty over the commitment of the left-wing minority government to reform and rapid privatisation.

Mr Dochia's departure follows the resignation of Mr Misu Negritoiu, deputy prime minister responsible for economic reform, and the dismissal of Mr Emilian Iudea, president of the Romanian Development Agency, the government's foreign investment

arm, last month.

Both Mr Dochia and Mr Iudea reported to Mr Negritoiu, an independent, who was considered the cabinet's most important reformer. Mr Dochia said the state had so far sold only 1 per cent of the equity of the 6,230 state companies earmarked for privatisation, even though the 1991 privatisation law stipulated that 10 per cent should be sold each year.

He said the best solution would be to bring the State Ownership Fund, the 70 per cent owner of the commercial companies, under government control.

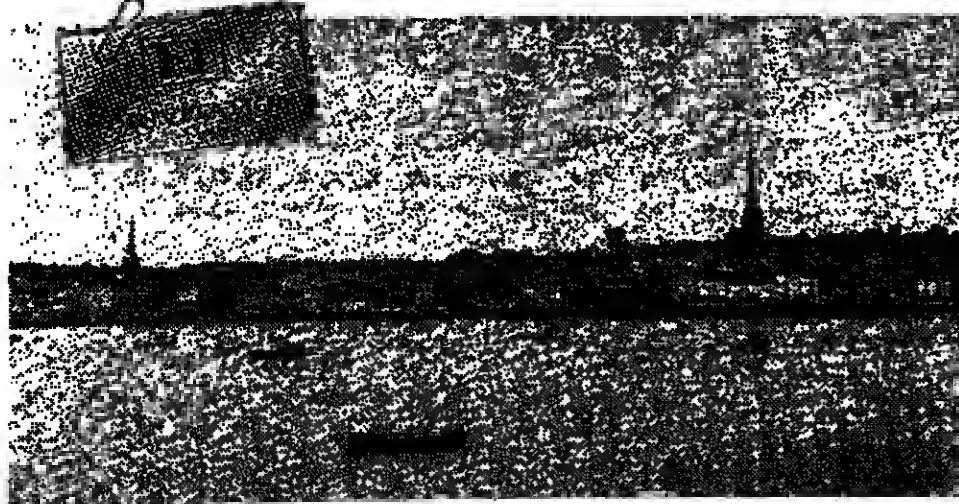
Before his resignation, Mr Negritoiu had begun to make the SOF, conceived as an independent body, more accountable to government but had

run into political opposition.

The SOF's board has been dominated by members of the ruling Social Democracy party since it won last September's general elections.

The party, which includes many senior former communists, has encouraged SOF to give priority to privatisation through management or employee buy-outs. The board has allowed the SOF to invest the proceeds in other state firms with the aim of giving them a better chance of survival once privatised.

Opposition parties say this is not permitted under the 1991 law. The SOF should make efforts to attract foreign investors and sell off state companies as quickly as possible, they say.



# WEXFORD FESTIVAL OPERA

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In a Financial Times review we described the Wexford Festival thus: "This remains one of the world's most remarkable festivals - genuinely festive on stage and off... with the combination of unquenchable enthusiasm and sometimes quite thrilling theatrical expertise." (FT 18th May 1991)

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We have arranged with Aer Lingus to fly FT readers from any airport served by the airline direct to Dublin, from where we will arrange to take you either by coach, or in your own hire car, to Wexford. There rooms have been reserved at White's Hotel (a few minutes walk from the opera house) for the duration of our suggested four day itinerary, though arrangements can, where possible, be adjusted to fit in with your plans, and required departure airport.

Though we have reserved only a limited number of seats, we anticipate that demand for this FT invitation, which will include a number of unique features, will be high, so please complete the coupon now, to receive further details.

**Suggested Itinerary**  
Friday 29th October  
Depart Heathrow\* with Aer Lingus at 9.55am. Arrive Dublin at 11.05am. Coach to Wexford  
Evening performance of *Cherevicki* followed by supper.  
Saturday 30th October  
Evening performance of *Barbiere di Siviglia* preceded by dinner.  
Sunday 31st October  
Evening performance of *Zampa* preceded by dinner.  
Monday 1st November  
Depart Dublin 1.15pm. Arrive at Heathrow 2.25pm.

**Price £595**  
Price includes scheduled air travel by Aer Lingus from Heathrow, coach transfers, lunch on outward transfer, half board accommodation at White's Hotel (based on sharing a twin room with shower and wc.) and opera tickets for three performances.  
Single room supplement £75.  
Hire car available from Dublin airport for a supplement of £120 per couple.

\*Alternative flights (times, dates or departure airport) can be quoted on request. All elements of this invitation are subject to availability; earlier Festival dates may also be available.  
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## NEWS: EUROPE AND WORLD TRADE

# Costs dispute with Prague sours Skoda deal

Profitability drive by Volkswagen could damage prospects in Czech Republic, writes Patrick Blum

THE Czech government and Volkswagen, the German carmaker, are locked in dispute over prices and suppliers which threatens to sour their relationship and damage VW's prospects in the Czech Republic.

The dispute erupted when Skoda, the Czech car manufacturer in which VW has a 31 per cent stake, announced in August it was increasing its car prices by an average of 8 per cent, and hinted it would seek some supplies from western Europe because of rising costs in the Czech Republic.

VW plans to raise its stake in Skoda to 70 per cent by 1996 and invest up to DM9bn (£3.6bn) in the venture over 10 years.

Only yesterday Lucas, the UK motor components group, said it had won an "historic" contract to supply Skoda with components via a Czech-based joint venture. Lucas Automotive, set up in March and in which Lucas has a minority interest, is to supply Skoda's Czech plant with rear axle assemblies in a deal worth £15m a year.

The Skoda announcement on price rises in August stems from the Volkswagen group's drive to improve profitability and cut production costs worldwide.

Suggestions early this summer that Skoda, which is expected to help develop a large network of suppliers in the Czech Republic, was con-

sidering switching some of its supplies from Czech to German and UK producers, angered the government. "If Volkswagen is changing its view, then we can also change our view," said a government official privately.

The increase in the price of the Skodas was the latest in a series that has brought the price of a basic model to about CZK170,000 (£3,800). That is almost twice the cost of a similar Skoda model three years ago, an increase well above price rises generally.

The move surprised the government which wants to curb an inflation rate expected to be about 17 per cent this year. Mr Stanislav Bejch, minister for economic competition, responded by threatening to

reduce the tariff on imported cars from 15 per cent for European Community-produced cars and from 19 per cent for other cars, to 10 per cent.

The threat aimed at increasing competition from other manufacturers fell flat however when it became known that in 1991, the Czech government had promised VW it would maintain high tariffs on imported cars for four years, as an incentive for the German company's investment in Skoda.

Prime minister Vaclav Klaus, who at the time was finance minister of the now defunct Czechoslovak federation, said he had rejected VW's request for tariff protection. He said the promise was made

without his knowledge in a letter by Mr Petr Pithart, the then Czech prime minister. The suggestion is that as the letter was not formally approved by the cabinet it may not be binding.

This provoked a furious debate within the government, with senior officials warning that going back on the promise would damage the country's reputation. The problem for the government is that it cannot back down without losing face.

The price increases have provoked angry letters of complaint from customers. Autoklub, the Czech motoring association, accused Skoda of taking advantage of its effective monopoly on Czech low-

priced cars. Skoda rejects the accusations saying its market share had fallen to around 35 per cent with the biggest market share going to second-hand imports.

"We have to raise prices because we have large costs to improve the cars, marketing, establishing a network of suppliers, and we are investing in the development of a new car. People have to understand they have to pay for our investment in new products," Mr Milan Smutny, Skoda spokesman said.

He also rejected suggestions VW had lost interest in local suppliers. "We want to continue with the input of Czech and Slovak producers. Our policy is that the majority of our

supplies should be made here, but we need low (supply) prices. We can't continue co-operation with suppliers who cannot adapt when we can get 30-40 per cent lower prices from Germany," he said.

The joint venture plant at Mlada Boleslav, 40 miles north of Prague, was established in 1891. It produces more than 200,000 cars annually, more than half of which were exported last year, and plans are to raise production to 450,000 cars. But tough restructuring measures launched this year by Mr Ferdinand Piëch, VW chairman, had created "big pressure to cut cost and raise profits" throughout the group, said Mr Smutny.

## VW is accused of paying lip service to probe

By Kevin Done

VOLEKSWAGEN should start to co-operate fully with the investigation by public prosecutors of the alleged theft of secret documents from General Motors and not just "pay lip service" in co-operation, Mr Louis Hughes, president of GM Europe, said at the Frankfurt motor show yesterday.

"I wish that the Volkswagen group, instead of saying they would fully co-operate with the public prosecutors, would actually do so. It is lip service. It is not endorsed by action." If charges were made, it would be "a case of industrial espionage of unbelievable proportions," Mr Hughes said. "An industrial version of Watergate."

VW said yesterday it was co-operating fully with the state prosecutors and that Mr Hughes' remarks were "unjust". It was in VW's interest that the matter be cleared up as quickly as possible, said Mr Otto Ferdinand Wachs, VW spokesman.

The prosecutors have been investigating for more than four months the alleged theft of thousands of confidential documents from General Motors, the US carmaker and from Opel, its German subsidiary, in connection with the defection to Volkswagen in March of Mr José Ignacio López de Arriortúa, GM's former global purchasing director, along with several of his former GM colleagues.

Mr López is now the VW group's production and purchasing director. The prosecutors raided VW's head office in Wolfsburg and several other locations late last month.

The alleged theft concerns the disappearance of sensitive GM documents which the US group says are vital to its competitive standing, including the prices it pays suppliers for components, lists of its components suppliers, and confidential details of its future product programmes.

"It would be good if Mr Piëch [VW chief executive] and Mr [Klaus] Liesen [chairman of the VW supervisory board] would send a letter to VW employees saying that, without any danger to their job security or their relationship with their supervisors, they should say what they know of this case."

# López preaches gospel of third industrial revolution

Kevin Done in Frankfurt sees why so much fuss has been made of VW's charismatic production director

THE gospel of the third industrial revolution was presented in Frankfurt yesterday by Mr José Ignacio López de Arriortúa, Volkswagen's beleaguered but charismatic production and purchasing director.

His preaching has changed little since joining Volkswagen in Germany in March from his post as global purchasing director of General Motors in the US. Those that fail to grasp that the third industrial revolution is under way are condemned to fall by the wayside as surely as those that ignored the first two, namely the introduction of the steam-powered loom in Britain in 1750 and the production of cars on a moving assembly line in the US in 1913.

The only changes in the text of the sermon from GM to VW - the stumbling giants of the car industry in North America and Europe respectively - concern the location of the congregation.

In the US, when López, as he is popularly known to colleagues old and new, preached to the citizens of Saginaw or Flint in the heartland of the US Midwest, it was America and the Americans that were in danger of becoming "a second-class economy and second-class citizens." If they did not heed the message.

Now it is the citizens of Wolfsburg and Lower Saxony that could go the same way. For America read Europe.

Mr López was introduced to the Financial Times Motor

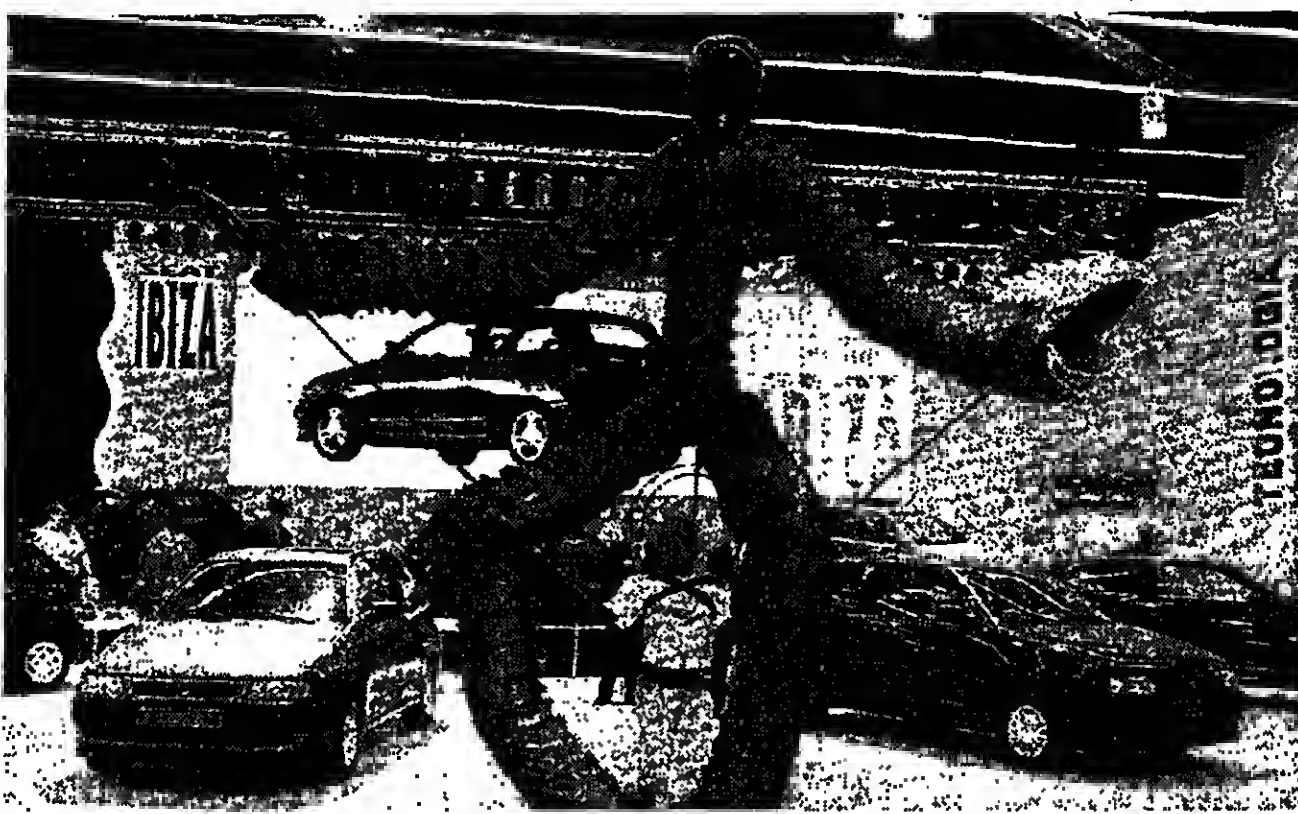
Industry conference in Frankfurt as "the warrior from Volkswagen" by Professor Daniel Jones. Prof Jones has also made a strong line in the past three years out of the gospel of "lean production," a term he helped to coin in the book *The Machine That Changed The World*.

But this was Mr López's day - a day to show his audience of component makers, rival car producers, bankers and financial analysts just why so much fuss has been made about him and why both GM and VW were prepared to offer contracts with telephone number salaries to secure his services.

Whatever his long-term impact on the world auto industry, López is a showman and he knows how to work an audience.

"You will not receive copies of this speech or the slides, so please take notes. Later you will need to use these notes, so pay attention or you will look lost." From such an opening the audience was eating out of his hand.

The López sermon calls for a few quick jumps through history from 1750 to 1913, and then to a breathless pause in 1964. That year is significant because the Japanese industry produced only 600,000 cars then, Europe 7.3m and North America 8.37m. Car exports were virtually nil. Leap 28 years and what do we see? North America producing 7.46m cars with negligible exports, Europe making 12.7m but selling most at home,



Paper chase: An animated paper model lures the public to the Seat Ibiza stand at the Frankfurt motor show which opened yesterday

Japan producing 9.38m and exporting 1.83m to North America and 1.34m to Europe and emerging countries producing 5.09m.

Europe, last year America, beware!

Now we are in the midst of the third industrial revolution, says the prophet López, but it is

more difficult to grasp than the first two. It is a revolution of ideas, principles and values.

Continuous improvement - *kaizen* to the Japanese - is yesterday's text, today it is the message of "quantum leap" improvements to generate value for the customers.

Improvements of 5, 6 or 7 per

cent are not enough, "it is 30 to 40 to 50 per cent type improvements that must be made," says López with his heavily Spanish-accented English racing to keep up with the flow of ideas.

The complete value-added chain from raw materials to the customer must be brought

together and waste eliminated. Perhaps we shall end up with the "supra-enterprise" along the way, taking in all these elements, he says.

In the old world of dominant downwards values, manufacturers started with costs, added a profit margin and arrived at a price. Now in the

brave new world of ascending values, the customer dictates. You start with a market price, work backwards to add in a profit and you are left with what can be the cost. Now you must develop functions that can achieve that cost, says an enraptured López.

"Not to do this is like making clothes by hand or cars one by one. You will not survive." There are only two ways to go. Look for intelligent excuses - and lose.

Or put creativity into action - and win.

To questions from members of the audience not exhausted from note-taking, he insists that more than 90 per cent of German suppliers are behind him. The response from the German unions has been "fantastic".

To those worrying about growing queues of jobless from his ruthless cost-cutting, he replies: "Improvements in productivity generate more working places. All those that don't improve productivity will lose 100 per cent of their work-places."

He doesn't like the term "killing" jobs. "Only those that don't realise they are in a revolution will disappear." The vision seems undimmed by the investigations of public prosecutors and allegations of industrial espionage by his former employers.

But it is still to be seen whether the prophet has reached the promised land or just another wilderness.

## ABB gas turbines to challenge rivals

By Andrew Baxter

ASEA BROWN BOVERI, the Swiss-Swedish engineering company, yesterday threw down a challenge to its rivals in the fast-growing \$12bn (£7.9bn) market for combined-cycle power stations by launching a range of advanced gas turbines which it claims are the most efficient yet.

The announcement could have a big impact on the sector, where companies such as General Electric and Westinghouse of the US, the Anglo-French GEC Alsthom and Siemens of Germany are ABB's main competitors. All the big players in the power equipment industry have spent heavily on increasing thermal efficiency of gas turbines, which produce combined cycle power when a steam turbine is attached to run from the gas turbine's exhaust gases.

ABB is claiming efficiencies of 59-59.5 per cent for its two new turbines; for the 50-cycle (Hz) networks of Europe and most of Asia and for the 60 Hz

market in the US and elsewhere. The company says these efficiencies are 2 percentage points higher than values currently being quoted and 3 percentage points higher than others have achieved in combined cycle operation.

ABB has received one order for its new turbine - from Jersey Central Power and Light in the US.

Mr Fritz Gautschi, senior vice-president and general manager for ABB's gas turbine division, said the increased efficiency could save a utility as much as \$40m in costs over the 15 years of a typical power station's use, depending on the price of fuel.

ABB said it hoped to capture a "sizeable" share of the 13,000MW market for large gas turbines. The company has lacked a truly large gas turbine to compete with machines from GE, considered to have the technological edge.

Mr Gautschi said ABB's new 50 Hz machine would pump out 365MW of power with a steam turbine attached, 35-40MW higher than its rivals.

## Tokyo to outline trade stance

By Michio Nakamoto in Tokyo

THE US and Japan today begin a series of talks under a framework agreement aimed at ironing out bilateral trade and economic issues. They will provide the first glimpse of the new Japanese government's stance on trade.

The talks, agreed between President Bill Clinton and former Prime Minister Kiichi Miyazawa, will cover a broad spectrum of issues, including reduction of the Japanese current account surplus and

improved market access for foreign companies in specific Japanese sectors. Since the framework talks were set up by Mr Miyazawa has been replaced by Mr Morihiro Hosokawa.

An agenda for future discussions and possible co-operation is likely to be established at the meetings. Five areas for co-operation have been agreed between the two countries: Aids research, the environment, development of human resources, technology, and population planning in developing

countries. But interest in the talks, being held in Washington, will focus on whether or not the US renews pressure on Japan to set quantifiable targets in opening up specific markets to US products and reducing its surplus.

Although Tokyo's stated commitment to deregulating markets has been welcomed by Washington, Mr Hirohisa Fujii, the new finance minister, yesterday renewed opposition to Washington's demand that it set a target for reducing the surplus.

In a joint statement issued after a July summit of the Group of Seven industrialised nations, the two countries called for a "highly significant" reduction in Japan's surplus. The US has been asking for a cut from 3 per cent of GDP to between 1-2 per cent, but Japan has resisted setting a numerical target on the grounds that this would lead to managed trade.

However, some Japanese industrialists say a quantifiable target should be set for the reduction.

## Shell in dispute over oil platform deal

By Karen Fossli in Oslo

KVAERNER, the Norwegian engineering, construction and shipbuilding group, is in dispute with Norsk Shell, the Norwegian subsidiary of the Royal Dutch/Shell group, over final settlement of a North Sea oil platform contract.

Kvaerner Rosenberg, a unit of Kvaerner, is seeking Nkr483m (\$48m) in compensation for extra work it claims

the oil company demanded outside the original scope of the contract. Shell, in turn, is seeking Nkr1.2bn from Rosenberg for alleged "wilful misconduct" over the contract.

Kvaerner said that during construction of the Draugen platform deck, at the Rosenberg yard in Stavanger, Shell approved substantial changes and additional work. The contract was originally valued at Nkr834m.

"During its [the contract's] execution, Shell issued instructions and paid for supplementary work worth almost Nkr1.2bn. This brings the value of the contract - excluding Kvaerner Rosenberg's disputed claim - to Nkr2bn," Kvaerner said.

The contractor said three-quarters of more than 25,000 construction documents supplied by Shell to Rosenberg were received too late for it to

meet the stipulated delivery schedule. "In addition the company received almost 30,000 change orders," Kvaerner said that despite much extra work, Rosenberg achieved 98.4 per cent completion of the deck when it was ready for delivery in mid-January.

Shell, however, requested Aker, Kvaerner's main Norwegian competitor, to undertake final completion and commissioning of the platform.

## China faces steep EC duties on bikes

By Andrew Hill in Brussels

THE European Community is poised to impose heavy duties on imports of bicycles from China, in spite of claims that retail prices will rise as a result.

One Chinese diplomat in Brussels yesterday described the duties as unfair, and a leading exporter of Chinese bicycles warned that EC producers might try to increase prices of popular models as supplies were squeezed.

But the European Commission said the duties would protect the long-term health of the EC industry by stopping the Chinese from "dumping" bicycles on the market.

The Commission, which examines dumping complaints, has calculated that EC producers' share of the market fell from 37.8 per cent in 1989 to 30.2 per cent in 1991, while Chinese market share rose from 4.6 per cent to 10.5 per cent, or 2.1m bikes.

About 20m bicycles are sold on the EC market annually, but the Commission says sales have stagnated since 1991.

Chinese officials will pay a final visit to the Commission today in an attempt to defer the action, which is the latest in a series of dumping inquiries to have gone against Beijing. Definitive duties, which will increase the price of incoming Chinese bicycles by 30.8 per cent, should be imposed today or tomorrow, following approval by member states. A provisional duty of 34.4 per cent was imposed in March.

Chinese bicycles are not necessarily a cheap alternative to the popular mountain and city bikes which have dominated the EC market over the last few years. Many Chinese-made bicycles are imported into the EC and resold under well-known brand names. Such models can cost between £200 and more than £1,000 in department stores.

Mr Stephen Codron, a director of China Bicycles Company, believes importers will switch to other Asian suppliers - leaving the EC industry in the same predicament - while EC producers will take the opportunity to increase prices.

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FT



Canadian Tories pledge overhaul of social security programmes

# Campbell kicks off campaign

By Bernard Simon in Toronto

MS Kim Campbell, Canada's prime minister, kicked off a seven-week election campaign yesterday by pledging an era of less government intervention, an overhaul of social security programmes and a tougher justice system.

She was speaking in Ottawa after asking the governor-general to dissolve parliament and call an election for October 25. Ms Campbell and Mr Jean Chrétien, leader of the opposition Liberal party, immediately set off on their chartered buses for what is likely to be a grueling and close-fought campaign.

Both headed first for the province of Ontario which, together with Quebec, contains more than half the country's 295 constituencies and will be the focus of the big parties' drive for votes.

The Conservatives hold 153 seats in the House of Commons, followed by the Liberals with 79 and the left-of-centre New Democrats with 43.

The Liberals are the present front-runners, thanks partly to a collapse in support for the NDP and to the strength of the separatist Bloc Québécois in Quebec.

The Conservatives were able to rely on strong backing from

Quebec nationalists for their back-to-back election victories in 1984 and 1988.

But observers also agree that the coming election is one of the most fluid and unpredictable in many years. Support for the traditional big three parties will be fragmented by the Bloc Québécois and, in western Canada, by the populist Reform party.

Ms Campbell indicated yesterday that she would portray herself as a fresh face for the 1990s, compared to the 60-year-old Mr Chrétien, who has been in politics for over 30 years, including many years as a cabinet minister under Mr Pierre Trudeau.

The main thrust of the Liberals' campaign will be to portray Ms Campbell as a clone of her unpopular predecessor, Mr Brian Mulroney. The Liberals are due to release their detailed policy platform within the next week or so.

Ms Campbell was cautious yesterday to avoid the extravagant promises which marked the 1984 and 1988 campaigns. She said that "we live in tough times and Canadians have some tough questions for governments."

She pledged "a new leadership that respects the bottom line, and the basic needs of Canadians."



Kim Campbell arrives for her meeting with the governor-general

## Guatemalan court reinstates Lobo

By Edward Orlebar in Guatemala City

GUATEMALA'S constitutional court has temporarily reinstated Mr José Lobo Dubon as president of Congress after he was ousted in a rebellion against his authority by a group of deputies on Sunday. The court's decision, made on Tuesday night, reinstates Mr Lobo pending a definitive

ruling expected within two weeks.

The move does not appear to have reduced tension between the two rival groups in Congress squabbling over how they should purge the institution of corrupt members. Congress's limited credibility with the Guatemalan public has plummeted since the crisis began.

Pressure to purge Congress

came after President Ramiro de León Carpio last month called for the resignation of all 116 members in an effort to rid the country's institutions of corruption.

Opponents of Mr Lobo, a Christian Democrat, have said they will sue him after a congressman was allegedly hit with a pistol butt on Monday night in a scuffle with his security guards.

Mr Lobo in turn says he will sue Mr Arturo Soto, promoted by the rebel deputies as president of congress in his stead, and 11 other congressmen who formed a de facto parliamentary leadership.

The Partido de Avanzada Nacional, a pro-business party which holds 12 congress seats, said it planned to withdraw in protest at the court's decision.

## Menem's drive for new term falters in Senate

By John Barham in Buenos Aires

TENSE negotiations behind closed doors in the Argentine Senate continued yesterday afternoon after President Carlos Menem's attempt to amend Argentina's constitution faltered on Tuesday.

Mr Menem wants to scrap the 1853 constitution's ban on successive presidential terms and run for re-election when his six-year term ends in July 1995.

To do so he must first win a two-thirds majority in both houses of Congress.

But on Tuesday, the first day of debate in the Senate, two members of the ruling Peronist party denied Mr Menem the majority by refusing to back the amendment. The president later cut short an official visit to Brazil.

Senator José Bordón, who has already declared he will seek the Peronist presidential nomination, said on Tuesday he would only support the amendment if the government established a consensus with the opposition Radical party. Senator Antonio Caffero, who lost the Peronist presidential nomination to Mr Menem in 1988, also rebelled for the same reason.

The Peronists hold 30 of the Senate's 48 seats and had enlisted the support of two independent senators to reach the required 32 votes. Some Peronists are accusing the two rebel senators of betrayal and threaten to expel them from the party.

In yesterday's negotiations Peronists attempted to win over independent and Radical members and avoid a humiliating setback for Mr Menem.

Even if the government wins the Senate vote, achieving a two-thirds majority in the Chamber of Deputies will be more difficult. The Peronists have only 45 per cent of the lower house's 257 seats and are unlikely to win many more in mid-term elections on October 3.

## Clinton's peace corps also help themselves

ALTRUISM might be back in fashion with America's youth, but the generation President Bill Clinton is calling upon to serve is very different from the one that volunteered for President John Kennedy's Peace Corps 30 years ago.

Mr Kennedy stirred thousands to give up affluent lifestyles to teach in Africa, farm in Asia and build trenches in Latin America. In trying to capture the same idealism, Mr Clinton, who often harks back to the idealism of "Camelot", must appeal to good-hearted but hard-headed young people who want to help others - and themselves.

Mr Clinton's National Service Act, which has already passed the House and which was in the final stages of being passed by the Senate last night, would put young people to work on repairing the environment, teaching, refurbishing houses and performing other community service in return for a small wage and an education allowance.

"Young people today are very different than they were when I was in my young 20s," says 50-year-old Mr Eli Segal, who as director of the White House's Office of National Service has given substance to the president's plan. "I think they're far more practical, far more sophisticated about how things work, far less confrontational."

It is also a generation that faces what Mr Segal termed an "educational crisis" as the cost of tuition has soared beyond the reach of most.

Mr Clinton's plan is aimed at helping young people to serve and cover their tertiary tuition costs. Participants would provide a year of community service in exchange for the minimum wage of \$4.25 an hour and an education allowance.

Congress scaled back the plan, cutting allowances from \$10,000 for two years of service to \$6,450 and limiting spending on the whole scheme to \$1.5bn for the first three years. The White House estimates that about 20,000 students will participate in the first year.

It is a small start for a president who attracted support on

the campaign trail from students and their parents saying that anyone who wanted a college education ought to be able to afford one. Proponents say the plan will fulfil another, more important goal: bringing groups of people from diverse backgrounds to work together.

Framers of national service hope to attract a more diverse group of Americans than participated in previous service programmes. Peace Corps officials concede that, until the 1980s, volunteers were mostly white and middle- to upper-middle class. In 1982 only about 5 per cent of volunteers were minorities.

### Lisa Bransten on national service that pays back in education

Ms Erin Moran, a 17-year-old from a middle-class area of Baltimore was stunned by what she was learning while helping refurbish a recreation centre in a rundown part of her home town.

"I was really naive about what went on in the inner city," she said. "Yesterday we met with other teenagers and we were talking about teenage pregnancy and they saw nothing wrong with it because there was always welfare and they saw nothing wrong with AIDS because they figured they wouldn't survive in the city very long anyway."

Mr Phillip Harris, aged 18, who grew up in one of Baltimore's toughest neighbourhoods, said it was important for people like Ms Moran to understand that improvements come gradually.

"We have a person in our group who felt like, 'I'm coming in to help people and in eight weeks we've got to make them change.' We sat her down and said, 'You can't change people so quickly.' Now she's dealing in reality," he said.

After a youth spent selling drugs and carrying weapons - and a month-long stay at a juvenile detention centre - Mr Harris is realistic about how much can be done,

but he also wants to show youngsters in his neighbourhood that change is possible.

"By selling drugs and committing a lot of crimes I took a lot away from the community," he says. "A lot of the young people who are selling drugs now used to look up to me. Now I am trying to reverse things - make them look up to me in a positive light."

While Mr Harris wants to help his community, he is also studying for a business degree at a local community college and the \$1,000 he receives for his work will help. After finding government programmes did little to help his family or their neighbours, Mr Harris puts his faith with the business community because, he says, they seem to understand their customers better than any bureaucracy.

The loudest critics of national service believe it would cost too much. Senator Nancy Kassebaum, a Kansas Republican, tried to reduce the cost for the first three years from \$1.5bn to \$800m and voted against the measure when the White House rejected her plan. Others in Congress proposed giving educational benefits only to those in need and making the money contingent on other scholarship programmes being fully funded.

Leading proponents of the measure such as Representative Dave McCurdy say the bill is not about education, but about service. "If you are only concerned about a college education then this is not the concept," the Oklahoma Democrat said. "The concept is changing the ethic in America from grants and loans to service."

Mr Jason Scott, a 24-year-old who started Youth for National Service to lobby for the plan, said it was up to his generation to heal the nation's ills.

"The country is getting more diverse, not less diverse and we know that we are the ones who are going to have to deal with that," he said. "We believe (national service) has the potential to engage a new generation of young people in service, young people who might not otherwise have the means or the opportunity to serve their country."

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## NEWS: INTERNATIONAL

## 'Arafat bond' may target expatriate funds

By Julian Ozanne and Andrew Gowers in Jerusalem

THE DAY of the Arafat bond may be night, Mr Yasser Arafat's embryonic Palestinian authority in the West Bank and Gaza could tap wealthy expatriate Palestinian businessmen for financial support and may finance public sector investment through a Palestinian bond, according to a confidential World Bank report.

The report, being drafted by World Bank economists in consultation with the Israeli government and potential donor countries, says a Palestinian government - to be established under the proposed Israeli-PLO peace deal - will need external financing of \$1.5bn to \$1.75bn in the five years of interim self-rule.

It expects at least \$750m more in private capital inflows from Palestinian expatriates. The money will be needed, the bank says, to fund public-sector infrastructure investments worth about \$1.35bn over five years, predominantly on water supply, sewerage, waste disposal, roads, electricity, education and health.

In the longer term, the report adds, the "Palestinian entity" - code for what most observers expect to be a state - will have to invest a further \$1.65bn in power generation (preferably as part of a regional power grid), expansion of road, health and education systems, and construction of airport facilities.

The report is intended as a framework for the international aid effort to underpin the expected peace agreement. Its recommendations will be discussed at a meeting at World Bank headquarters in Washington later this month.

The Bank also expects Palestinians to finance public sector development through external borrowing - which would be sustainable since the Palestinian entity will not inherit a crushing external debt.

It estimates there are about 200,000 Palestinian workers and businessmen living in the Gulf states and industrial countries. They include some of the largest engineering and construction magnates in the Arab world, many of whom have close affiliations with the PLO.

"Given the strong community ties among the Palestinians, it is likely that, in the wake of a peace agreement, a good fraction of these businessmen and professionals would wish to strengthen their links with the occupied territories through increased remittances, as well as direct investment in productive ventures," the report says.

The bank adds that the entity will benefit from its high-quality workforce - Gaza and the West Bank have the highest proportion of graduates of any Arab country - and from tourism to the area.

But it warns the future government against economic mistakes and issues some policy prescriptions, including suggestions it establish a free-trade area with Israel and liberal trading links with other Arab countries. It also recommends harnessing the energies of private entrepreneurs rather than relying excessively on the public sector.

"Political settlement and peace is a necessary, but not a sufficient, condition for economic development in the occupied territories," it says. "Much will also depend on the quality of economic management in the post-peace period."

## Delhi acts to ease share market upset

By Stefan Wagstyl in Bombay and Shiraz Sidwa in New Delhi

THE INDIAN finance ministry yesterday acted to end uncertainty in the country's stock markets caused by an income tax investigation into the affairs of Mr Harshad Mehta, the broker at the centre of last year's Bombay securities scandal.

Officials held meetings with representatives of the Income Tax office and of the Securities and Exchange Board of India (Sebi), the securities watchdog, which is concerned that the tax probe should not disrupt normal market operations.

Reports that the ministry had urged tax inspectors to conduct their investigation in a way which did not hurt investors' interests brought some relief to investors and brokers on the Bombay Stock Exchange.

The index of leading stocks, which had fallen 130 points since the start of the week, dropped a further 41.44 yesterday to close at 2,590.24. But brokers took comfort that the index finished 23 points above its opening level when sentiment was at its gloomiest.

They said confidence grew during the day as reports from Delhi, where the finance ministry meetings were being held, indicated that officials were taking investors' interests into consideration.

Last night the ministry made clear seizures of shareholdings

by the tax department were limited to identified shares of a few companies held in the names of specified persons.

A statement said that "transfers relating to genuine transactions by all genuine investors including institutional investors in respect of shares lodged for transfer with the provisional attachment orders will be freed from the existing curbs after the necessary formalities are completed."

The release said there was "no reason for any apprehension in the minds of genuine investors or the broker community in this regard."

The income tax investigation began last year after Mr Mehta was arrested for his alleged involvement in the Rs42bn (2875m) scandal which rocked the Bombay securities market last year. Mr Mehta and other brokers were accused of trading illegally in the interbank securities market, often in collusion with bank employees, in order to syphon funds into the stock market.

The tax probe disrupted the market this week when it emerged that the income tax authorities had frozen dealings in large blocks of stock, which they claimed were being held by 134 different individuals and companies, on Mr Mehta's behalf. The affected stocks are shares in nine leading companies including ACC, a top cement producer, and Reliance Industries, a chemicals and textiles group.

## Resignation hits Rabin as peace accord nears

By Andrew Gowers and Julian Ozanne

ISRAEL'S coalition government was destabilised yesterday when Mr Aryeh Deri, the interior minister, resigned amid charges of corruption.

The move will weaken the government at a critical moment, when it is about to sign an historic peace agreement with the Palestine Liberation Organisation, but will probably not knock the deal off course.

Mr Deri's departure, reported by Israel television, came after a panel of high court judges had ordered the prime minister, Mr Yitzhak Rabin, to sack him along with Mr Rafael Pinhasi, deputy minister for religious affairs.

Both are members of the ultra-orthodox Shas party, which has six seats in the Knesset (parliament), and has been a vital centre-right coalition partner.

It was not immediately clear

whether Shas would respond by replacing the two ministers or quit the government, which commands 62 votes in the 120-member Knesset.

If it did leave Mr Rabin would have to reconstitute his coalition with other right-wing religious parties. They could then demand concessions in domestic policy and in further peace negotiations - since Mr Rabin has pledged not to strike a peace deal at the head of a government relying solely on left-wing and Arab support.

However, once an agreement with the PLO is signed, Mr Rabin is widely expected to submit it to a free Knesset vote where, even with Shas out of the coalition, he could count on its support and the votes of defectors from right-wing parties to push the deal through with a substantial majority.

Mr Deri has been charged with fraud, misallocation of public funds, breach of public trust and diversion of interior ministry money to schools run by his religious movement.

Mark Nicholson adds: The executive committee of the Palestine Liberation Organisation was due last night to begin discussing the proposed agreement with Israel on self-rule. PLO officials said they expected the meeting to last two days.

Both the PLO and Israel still want to sign the agreement next Monday in Washington, but the two sides have as yet failed to agree on the wording of undertakings of mutual recognition.

## Report warns of long-term threat to energy supplies

By David Lascelles, Resources Editor

WASTE in industrial countries and growing demand in the developing world pose a long-term threat to energy supplies, says the World Energy Council, a non-governmental body representing more than 100 countries.

Although world supplies are still abundant, it says governments should take early action to secure supplies. Growing environmental pressures also require a drive towards greater energy efficiency.

A study of the long-term prospects for world energy, published in London today by the council, says present consumption trends could lead to a more than doubling of energy use by the year 2020. But if strong energy efficiency measures are instituted, growth could be contained to about 28 per cent over that period, despite a more than 50 per cent increase in world population.

According to the report, known oil reserves are currently large enough to last over 40 years, and natural gas over 65 years. Coal reserves are large enough to last 250 years. But the report doubts that fossil fuels will last beyond the next century because, as oil and gas run out, the use of coal may be accelerated sharply.

The WEC believes coal and nuclear power are the two

energy sources with strongest long-term prospects, provided the environmental problems associated with each can be resolved. But the report urges more rapid development of renewable energy sources such as solar, wind and geothermal.

The report warns that large sums of money will have to be invested in energy develop-

ment. The report believes pollution reduction timetables set by international agreements, for example on carbon dioxide, are unrealistically tight. Not until the latter part of the next century does it foresee the level of atmospheric pollution declining.

Energy for tomorrow's world, World Energy Council, 200pp, £25, ISBN 0 85206 120 0, 1200 Pentonville Road, London N1 9SL.

A CROWD of over 2,000 women (right), chanting Islamic and anti-US slogans, delivered a protest note yesterday to the American embassy in Khartoum over US accusations of Sudanese sponsorship of terrorism. Agencies report from Khartoum.

The embassy has cut the size of its staff and evacuated family members.

Sudan's hardline military leadership has responded angrily to the accusations. President Omar Hassan al-Bashir said on Tuesday that Washington had failed to produce any proof his country had allowed terrorist training camps on its territory. Lt-Gen al-Bashir, speaking in the Ethiopian capital Addis Ababa after a regional summit, also denied he was supporting Somali gunmen linked to Gen Mohamed Farah Aideed, the fugitive warlord, in their increasingly bloody battle with UN forces in Mogadishu.



## Seoul warns Pyongyang over nuclear weapons

SOUTH KOREA warned yesterday that it might toughen its stance against North Korea on the nuclear weapons issue unless Pyongyang resumes contacts with Seoul by tomorrow, writes John Burton in Seoul.

North Korea last week offered to hold inter-Korean talks concerning the inspection of its nuclear facilities, but it later added preconditions for the meeting it had proposed for tomorrow.

It demanded that Seoul stop its support of international efforts to force nuclear inspections, and end "nuclear war games", an apparent reference to its annual Team Spirit military exercise with the US. Mr Kwang In-sung, South Korean prime minister, in rejecting

the conditions told Mr Kang Song-san, the North Korean premier, that Pyongyang's demand "makes it doubtful if your side has a genuine intention of reopening dialogue".

North Korea suspended regular contacts with Seoul at the beginning of the year in protest against the holding of the Team Spirit exercise. It failed to appear at a meeting yesterday to discuss procedural matters for the talks tomorrow.

If North Korea boycotts that meeting, it could lead to the end of hopes for a quick resolution to the North Korean nuclear issue.

The US and South Korea have suggested they may ask the United Nations Security Council to impose economic sanctions on North Korea if

Pyongyang does not make progress in nuclear inspection talks with both the International Atomic Energy Agency (IAEA) and Seoul by the end of month.

North Korea last week held inconclusive talks with the IAEA on allowing its inspectors to examine two nuclear waste sites that are at the heart of the dispute.

The IAEA, which has heard no response yet from Pyongyang for a proposed new round of talks in Vienna, will discuss the issue at its next governors' meeting on September 21.

The IAEA wants to inspect North Korea's facilities to determine whether Pyongyang is producing more plutonium than it has reported to the agency.



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## Tokyo ponders new boost for economy

By William Dawkins in Tokyo

THE JAPANESE government is considering a fresh public spending package and cuts in income tax to help retrieve the economy from the brink of recession.

Mr Masayoshi Takemura, chief cabinet secretary, said tax reforms and extra spending were among the options being considered for the economic stimulus plans to be announced later this month. Proposed business regulation cuts, announced last week, would not be enough, he said. The package is likely to include loans for housebuilding and job creation, and spending on research institutes and telecommunications.

If agreed, this will be the third pump-priming plan in the

past year, after a total of nearly ¥24,000bn (£150bn) - in August 1992 ¥10,700bn was allocated and another ¥13,300bn came in this April.

Economic analysts believe their impact has so far been disappointing because government agencies have been slow to spend the cash on infrastructure.

Resistance to another spending package can be expected from the Finance Ministry, which will try to reduce its size, as in the previous two packages, on the grounds that the tax revenues to finance such spending are declining.

Prime Minister Morihiro Hosokawa is expected to unveil the deregulation, spending and tax plans some time before he visits the US on September 25 for his first meeting with Pres-

ident Bill Clinton. Washington's expectations are almost as high as those of the Japanese public, as it seeks evidence the government can live up to pledges to stimulate import demand so as to curb a record trade surplus.

Further evidence of the economic slowdown emerged yesterday when Sanyo Investment Research predicted that profits at Japan's top industrial companies will fall by just over 23 per cent in the year to next March. Sanyo's earlier estimate was for a 14.8 per cent decline, and it will be the third year that profits have fallen by more than 20 per cent. Sanyo attributes the downgrade to the yen's greater than expected strength and the impact of a wet summer on consumer spending.

## Japan's coalition halves proposed party subsidy

By William Dawkins in Tokyo

JAPAN'S new government is to scale back plans for public subsidies for political parties by half, to heal a potentially embarrassing rift with its largest coalition member.

The seven coalition groups expect today to agree draft proposals for a ¥300bn (£19bn) a year public political subsidy, said officials. This would replace corporate donations and is equivalent to ¥250 per taxpayer each year.

Last month, the coalition partners provisionally agreed a ¥600bn annual subsidy, only to be embarrassed when the defeated LDP counter-proposed ¥300bn. This jeopardised the popular new government's image as the bringer of a change in political style from the LDP, whose downfall came partly due to public disgust at its dependence on large, sometimes corrupt, corporate donations.

Ministers hurriedly explained that the ¥600bn figure was only tentative, after objections from the Social

Democratic party, the largest coalition member, whose chairman, Mr Sadao Yamahana, happens to be minister for political reform.

The subsidy is part of a package of political reforms, including a new single-seat constituency electoral system, for

**In spite of the inevitable internal coalition wrangling, public confidence in the government appears hardly shaken**

debate at a special parliamentary session starting on September 17.

Public subsidies would fill some of the gap left by corporate donations, to be phased out after three to five years, according to early drafts of the package. The aim is for parties

to compete with equal financial backing, instead of on their ability to wring cash from companies in return for favours.

In spite of the inevitable internal coalition wrangling to have emerged in the month since coming to power, public confidence in the government appears hardly shaken.

Three opinion polls yesterday showed that the administration's popularity remains high, as do public expectations. A Kyodo news agency poll gave Mr Morihiro Hosokawa's administration a 79 per cent popularity rating, a post-war high for any Japanese government, while the Asahi Shimbun newspaper gave it 71 per cent. The Mainichi Daily News recorded a 10 percentage point drop in the government's popularity over the past month, to a still high 65 per cent.

However, the real test of confidence in the government will come when the public sees final details of the electoral reform plans as well as a botched economic stimulus package.

## World re-examines its Pretoria policy

By Our Foreign Staff

GOVERNMENTS yesterday began re-examining their policies on sanctions against South Africa after the agreement reached in Johannesburg on Tuesday night to form a multi-racial transitional executive council.

Australian and New Zealand officials were quoted as saying that Commonwealth nations were likely to move

quickly, with one report saying an announcement on lifting remaining financial sanctions could come within 24 hours.

According to Mr Don McKinnon, New Zealand foreign minister, consultations among Commonwealth members were already taking place.

The US federal administration is meanwhile expected to welcome the decision on the transitional executive

as a step in the right direction, but to avoid greeting the move too effusively.

In the US, most remaining sanctions are the result of state and municipal laws. In the absence of any concerted lobbying for their removal many local governments are likely to dawdle over their repeal.

Once the transitional council is in place, international financial institutions are expected to move quickly to

bring their resources to bear in South Africa.

Mr Edward Jaycox, the World Bank's vice-president in charge of Africa, said recently that his organisation had identified projects totalling around \$1bn (£648m) aimed at redressing the imbalance in the supply of basic services such as education, health, energy and housing to the country's white and black populations.

## End of S Africa sanctions era in sight

THE breakthrough made this week by South Africa's constitutional negotiations towards establishing a multiracial government promises significant relief to an economy that is short of good news, writes Philip Gawith.

Agreement on a Transitional Executive Council (TEC), after many false dawns, has at last brought the end of the sanctions era in view.

Mr Nelson Mandela, leader of the African National Congress, has said the ANC will probably call for the lifting of remaining financial sanctions - most notably the embargo on International Monetary Fund/World Bank financing - by the end of the month.

It is likely also to mark the start of an era of considerably increased international development assistance. As Chief Emeka Anyaoku, secretary-general of the Commonwealth, made clear during a recent visit: "The international community wants to help and to help substantially once the next step has been taken towards representative government." The US and European Community have expressed similar intentions.

Although white South Africans have for years with bravado dismissed sanctions as ineffective there will be no disguising the joy when they finally go. While a minority found succour in the romance of the besieged *voortrekker* in its laager, most longed to be rid of the burden of being an international pariah.

It could not come at a better time. Economists believe South Africa's net reserves have fallen as low as one month's import cover, while capital outflows and the lower gold price have driven the rand to a



Nelson Mandela, Allan Boesak, regional chairperson, and clothing workers kick off the ANC's election campaign in the western Cape

record low against the dollar.

Top of the list will be re-establishment of links with the IMF. Since declaring a moratorium on the repayment of part of its external debt in 1985 South Africa has been forced to run a current account surplus to finance more than \$1bn a year in debt repayments. This has seriously hampered growth. Renewed access to the IMF will allow South Africa to run a deficit and growth prospects will be improved. Banks will also be much happier to do business in South Africa when it enjoys the financial backing of the IMF.

The IMF has made no secret in recent months of its willingness to lend to South Africa again, most recently in July when President FW de Klerk held talks in Washington with Mr Michael Camdessus, its managing director. The World Bank has also made clear it is ready to lend large sums, most

for infrastructure and human resource development.

Mr Chris Stals, governor of the Reserve Bank, the central bank, believes that the TEC agreement will be seen by the IMF and World Bank as the signal that the time is ripe to re-engage formally with South Africa.

He said yesterday that in terms of the IMF's compensatory and contingency financing facility (CFF), South Africa is eligible for about \$800m in assistance arising from balance of payments shortfalls related to the severe drought in 1992. The technical groundwork for the loan has already been done, but he stressed that an application would have to come from the finance sub-committee of the TEC.

Mr Dave Mohr, chief economist at the Old Mutual, the Cape-based life office, argues that when the world economy starts growing again, South

Africa's current account will benefit more directly than in the past when its trade was hampered by such factors as having to accept a political discount on goods and incur the cost of routing trade through a third party.

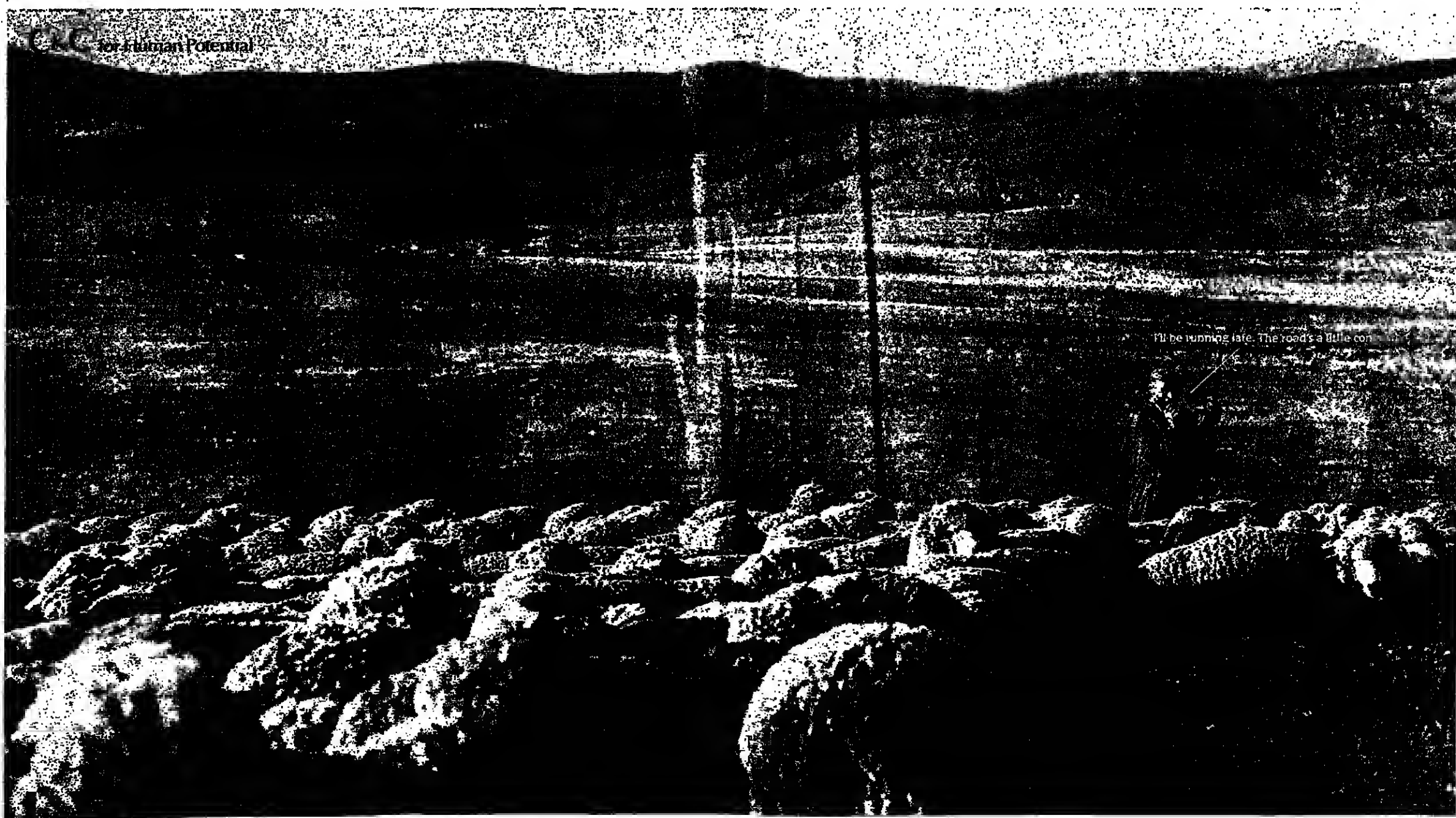
Although nobody is expecting big capital inflows to the country, the normalisation of South Africa's international economic relations should help stop the haemorrhage on the capital account. In the year to June, the total net outflow of capital not related to reserves amounted to R9.8bn (£1.4bn). Mr Stals argues that this "is not a sign of economic weakness, but of the difficult political situation in which we find ourselves".

He believes that the removal of sanctions will allow investors to assess South Africa more in terms of conventional risk criteria, without "extraneous" political distractions.

There remain, of course, as he is quick to recognise, ample reasons for believing that investors are likely to hold back until well after an election. At the very least, uncertainty about political stability, the shape of future economic policies, and the economy's seeming inability to emerge from a prolonged slump give considerable cause for caution.

From the point of view of the US investor there are other obstacles too. At the last count, 26 states, 90 local authorities and 24 counties still had sanctions in place. The effect of these has been to prevent US bank lending to South Africa and US pension fund investment in companies with South African ties.

The fact that some sanctions still remain in place against Namibia, which received its independence in March 1990, is a reminder of the obstacles that lie ahead.



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## NEWS: UK

# Powers of central bank challenged

By Andrew Jack

THE Bank of England is facing the first full-scale challenge to its authority as a regulator to supervise and recommend the closure of banks in the UK.

The Lord Chancellor's department - he leads the judiciary in England and Wales - has this week convened a banking appeals tribunal under the 1987 Banking Act in what is believed to be the first instance of an institution triggering a formal appeal.

Bank of England officials are submitting evidence to defend their plea to a High Court

judge last October, requesting the provisional liquidation of Mount Banking, a small Asian-owned bank. The tribunal was sought by the principal shareholders in Mount, Mr N. Shah and Mr S.B.R. Shah.

Details of the tribunal are secret, but the Lord Chancellor's office confirmed a three-person tribunal had been convened this week, chaired by Mr Jonathan Mance, QC. The two other members are a banker and an accountant appointed by the Chancellor.

The office said that there had been seven or eight previous attempts at an appeal in

the past 18 months, but all had been rejected at preliminary hearings attended by Mr Mance. Most were withdrawn voluntarily.

The grounds for closure were doubt about whether the management of Mount was "fit and proper" and not that the bank might be insolvent. Unaudited figures for the bank at March 31 this year show assets of £188.6m against liabilities of £183.4m. There are also additional provisions conservatively estimated at £10m.

Members of the tribunal will determine whether the action taken by the Bank of England

was justified and what measures should still be taken - which could fall short of withdrawing its banking licence.

Documents circulated by accountants at KPMG Peat Marwick, Mount's administrators, show Standard Chartered, the international banking group, may make a "significant claim" against Mount, believed to run to many tens of millions of dollars.

Mr Andrew Milne, a solicitor with Zaiwalla & Co, acting for Mount's owners, said the Bank of England had petitioned for closure as a result of the Standard Chartered allegations,

which he claimed were "proved completely false". He alleged investigators had conducted a "fishing expedition" to justify the closure on other grounds after they found no evidence supporting the claims.

Two weeks after its provisional liquidation, Mount was placed in administration. Last month creditors approved a voluntary arrangement permitting a number of options for the bank's future, subject to ratification this week.

Mount Banking has 3,000 depositors, mainly Asians resident in India and East Africa. Only a few live in the UK.

## Britain in brief



## Government to press on with rail sale

The government's determination to proceed with the privatisation of British Rail was reaffirmed last night by Mr John MacGregor, transport secretary.

He clearly indicated that in spite of uncertainty about the attitude of some critical Tory backbenchers, the Commons will be asked to overturn the amendment made to the Railways Bill by the House of Lords. It would permit BR to bid for franchises to operate passenger services.

The amendment, which the government claims would undermine the whole franchising process, received favourable comments from Tory backbenchers representing constituencies in Kent and other parts of the south-east who are worried about the implications of privatisation for commuter fares.

With its majority reduced by recent by-election reverses, even a small rebellion by Tory backbenchers would cause anxiety for the government because the Lords amendment will have the backing of most opposition MPs.

plant. It will make a final decision after public consultation, due to end on October 4.

## Union seeks compensation

Trades unions representing Swan Hunter employees have launched an attempt to obtain compensation of up to £1m in total for 420 workers made redundant from the Tyne-side shipbuilder by receivers Price Waterhouse.

At an industrial tribunal in Newcastle, the Tyne Confederation of Shipbuilding and Engineering Unions said there was no consultation before the 420 were told on May 28 they were being made redundant.

Treasury said. In its monthly monetary report, the Treasury remained bullish about prospects for growth saying that recent figures pointed to "very encouraging trends" even though some indicators weakened last month.

## Less cash for pollution body

The National Rivers Authority, one of the most vigorous pollution watchdogs, will peg its spending at the same level for the next three years partly because of a fall in its grants from government.

In the year to March 1993 it spent £437.4m, nearly 58m less than in 1992. Half was spent on flood defence and more than a third on improving water supplies and quality.

## Shell platform refurbishment

Shell is to refurbish its Dunlin production platform in the North Sea at a cost of about £100m. The project will extend the platform's life into the next century and enhance safety.

Shell said: "Until fairly recently we would have been looking at Dunlin nearing the end of its viable life by around the turn of the century. Now this has been pushed well into the next century."

Dunlin began operating in 1973 and produces around 27,000 barrels of oil a day. It also processes oil from the nearby Osprey development.

## Clash expected on waste

The government is heading for another clash over European environmental policy after it defended its methods of disposing of hazardous waste.

If Britain loses its battle over the form of a proposed European Commission directive, it might have to incinerate waste now disposed of in landfills or rubbish dumps, adding significantly to costs. In a report, it argues that the practice of mixing industrial and household waste together on the same site - co-disposal, which is common in Britain - is safe.

## Post Office 'needs freedom'

The Post Office needs to become more commercial by being allowed to break free from Treasury financial constraints and gain access to capital markets for investment funding, says a report by the consultants Economists Advisory Group for the postal unions. It also recommends that the Post Office adopts a "more arm's-length relationship" with government.

## Shoes find good homes

More than 3,000 pairs of counterfeit Dr Martens, the British shoes famed for their tough image, have been seized in Hong Kong in raids organised by the UK manufacturers.

The shoes, which normally would have been destroyed following the raids, have been shipped back to Britain where R. Griggs, the footwear company, gave them to Oxfam, the relief agency. Oxfam intends to send the shoes to aid projects in Somalia, Afghanistan and the former Yugoslav republics.

## Inflation outlook good

Inflation expectations continued to fall last month with headline and underlying retail price inflation subdued and labour costs and wage settlements at very low levels, the

# Lloyd's deputy blames workload for resignation

By Richard Lapper

MR STEPHEN MERRETT, one of the most controversial underwriters at Lloyd's of London, yesterday resigned as deputy chairman of the insurance market and from its ruling council following heavy pressure from other senior figures.

Mr Merrett's agency - one of the biggest in the market - faces substantial difficulties following a sharp fall in its popularity among Names, the individuals whose assets support the market.

Mr Richard Keeling, 48, deputy chairman of Lloyd's agency Murray Lawrence, was elected to succeed Mr Merrett as market deputy chairman.

In his letter to Mr David Rowland, chairman of Lloyd's, Mr Merrett attributed his decision to resign to an increased workload. "We have spoken a number of times over recent weeks about the problems that I have arising out of workload, already substantial and likely to increase as a result of the challenges and opportunities facing the Merrett Group," he said.

Last week, members' agents - who handle the affairs of Names and channel them into syndicates - explained that Names had lost confidence in the management of the Merrett

group, and that capacity - or capital - supplied by them to Syndicate 418, the group's biggest syndicate, would fall sharply from about £150m in 1993 to about £50m in 1994.

As a result, Merrett has been forced to step up efforts to persuade corporate investors to back the group's syndicates. The group is currently negotiating with Marsh McLennan, the US broker, and JP Morgan, the bank, about converting a company, set up earlier this year to provide reinsurance to Merrett syndicates, into an incorporated Name which would invest directly in the group's nine syndicates.

The Association of Lloyd's Names, the highest organisation of Names, yesterday welcomed the resignation, suggesting that it could improve the chances of an out-of-court settlement in the long-running litigation between loss-making Names and agents at the market.

Names argue that Mr Merrett's interest as an underwriter who insures fellow Lloyd's agents against legal awards for negligence conflicts with his position as a member of the council, at a time when the Lloyd's council could be involved in helping negotiate an out-of-court settlement.



Road to riches: Gainsborough's Peasants Going To Market may fetch about £4m at auction

## Peasants go to art market

By Antony Thorncroft

PEASANTS Going To Market, one of the finest landscapes by the 18th century British artist Thomas Gainsborough, is to be sold at Christie's in London in December.

A price in the region of £4m is anticipated, easily a record for the artist.

The painting, being sold by Royal Holloway and Bedford College, part of London University, is from a fine collection of paintings given to the college by its founder Thomas Holloway in 1886. His aim was to inspire the students.

Last year Royal Holloway received permission from the Charity Commission to sell three pictures to establish a fund to maintain its building, at Egham to the south-west of London.

One picture, Turner's, Van Tromp Going About to Please his Masters, was sold earlier this year to the Getty Museum of Malibu, California, for a record \$11m.

It had previously been offered to British galleries and museums, but the price was way beyond their means.

The Gainsborough was also offered to British art institu-

tions. It was bought by Holloway at Christie's in 1883 for 2,700 guineas - before decimalisation in 1971, a guinea equalled one pound one shilling (now £1.05).

The college has made no decision about disposing of the third painting, Constable's View of the River Stour near Dedham. However, with the cost of maintaining its 800-room building set to increase, pressure to sell the Constable could mount.

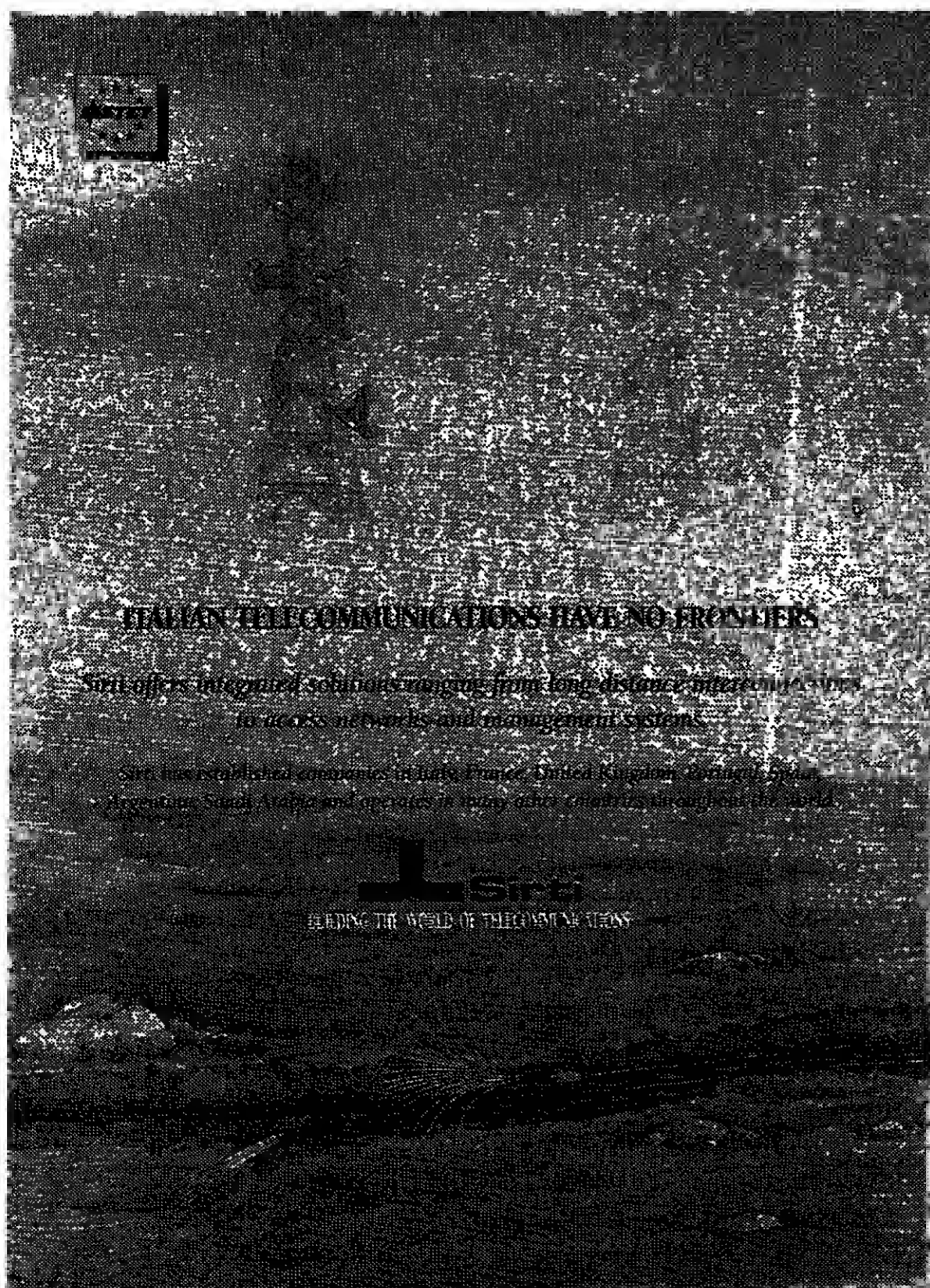
The college's collection of Victorian art, which includes works by Millais, Frith and Landseer, is to be kept intact.

## Doubts delay Thorp accounts

British Nuclear Fuels' annual report and accounts, which had been expected last week, may not be published until the end of January because of uncertainty about the future of its controversial Thorp reprocessing plant.

BNF said "we are hanging on as long as possible until we get a clear picture on Thorp".

Testing of the Thorp equipment began again yesterday, after a leak of nitrogen dioxide gas on Tuesday afternoon. BNF said the cause of the leak was the testing equipment, not Thorp. The government has already said that it is "minded" to give the go-ahead to the



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HA



Union congress meets AFL-CIO on mines dispute • US-style boycott at Zurich Insurance • Toyota and Nissan called 'forward-thinking'

## Hanson unions plan worldwide link-up

By Robert Taylor,  
Labour Correspondent

A WORLD trade union council is to be established representing workers employed by companies owned by Hanson, the conglomerate.

The move was announced yesterday after a meeting of British Trades Union Congress leaders with representatives from the AFL-CIO, the US trade union body, and the United Mineworkers of America.

The proposed council, to be a permanent organisation with worker representatives from Hanson subsidiaries worldwide, is intended to co-ordinate union strategy across Hanson subsidiaries. The TUC and AFL-CIO said they would seek a meeting with the company to discuss creating a joint company-union council.

Yesterday's announcement is the latest response to the current strike in the US by miners, including 17,000 employed by Peabody, the biggest private coal company in the US and a wholly owned Hanson subsidiary.

The strike, which has been going on since February, is

MSF, the technical union, has announced what it called a US-style corporate campaign against the Zurich Insurance Company. The union is protesting against Zurich's decision to derecognise the union, which has 1,000 members employed by Municipal Mutual Insurance, acquired earlier this year.

The campaign involves legal action, lobbying, advertising and efforts to persuade Zurich's customers to put pressure on the company. It falls short of a boycott of Zurich's activities. "For many people, fear of unemployment is so great that traditional action is no longer an option," said Mr Roger Lyons, MSF general secretary. "This campaign is a radical response to the reality of anti-union legislation."

against the Bituminous Coal Association, of which Peabody is a member. The United Mineworkers of America are demanding that jobs should be offered to unionised miners in new pits when exhausted mines are closed.

Lord Hanson told the TUC

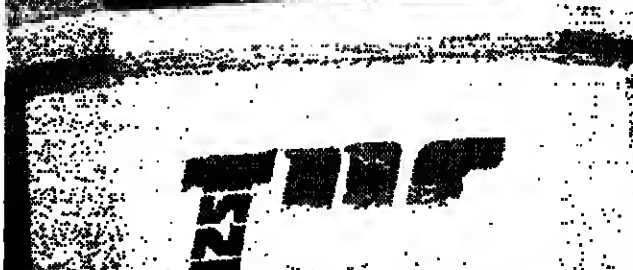
earlier this summer that Peabody's industrial relations policy was decided in the US and not in Britain.

The Peabody strike in the US has become a bitter struggle over the future of trade unionism in the coal industry. As the leading negotiator for the mine owners, Peabody is setting the pace for non-unionism in an industry where two thirds of the 100,000 miners are still organised.

The close involvement of the TUC and the AFL-CIO in the Peabody strike reflects a growing partnership across the Atlantic between the two trade union bodies.

They want to establish more global organisations like the new Hanson World Trade Union Council to press for the establishment of social clauses established by the International Labour Organisation and the OECD in agreements with global corporations.

Mr Martin Taylor, vice-chairman of Hanson, made no comment about the proposal to establish a joint company-union council. "We have excellent industrial relations," he said.



THE EROSION of employment security in Britain is creating an unstable society and contributing to the rise in crime, Mr John Monks, the TUC's general-secretary-elect warned yesterday. David Goodhart writes. In his first speech to the congress at Brighton, Mr Monks said "overmighty unions" were a thing of the past. "Dictatorship of the bad employer" was today's reality for far too many people, he said. His address was politely rather than enthusiastically received by the congress. Developing his theme of the decline of the "steady job", Mr Monks said: "What's on offer today is fixed-term contracts, contract working, part-time working, all too often forced down people's throats. It's as true now for the white-collar professional as it is for the manual worker"

Photograph: Ashley Ashwood

## Japanese companies praised

By Diane Summers,  
Labour Staff

JAPANESE-STYLE working practices should no longer be seen as "alien" by UK workers, the TUC agreed yesterday, as it backed union agreements with motor companies Nissan and Toyota.

Two years ago a motion passed by the annual congress described Japanese methods, including the use of teamworking and quality circles, as "alien". The motion angered inward investors and caused

embarrassment to senior TUC officials.

Yesterday's motion noted that "unions have created the conditions in which British manufacturing is able to compete with foreign-based companies. In particular, union agreements such as those with Nissan and Toyota are no longer seen as 'alien' working practices and have been emulated by companies such as Rover."

Mr Gavin Laird, AEEU craft union general secretary, said workers at Nissan and Toyota

had excellent pension rights, first-class training opportunities, above-inflation pay rises and maternity and paternity leave entitlements better than other car companies.

Mr Laird said: "We have not had one redundancy since these companies came... British workers in partnership with forward-thinking companies like Toyota, Komatsu, Bosch and Nissan have all delivered unprecedented levels of success - achieved in spite of, rather than because of, our government."

## Protest on electricians defused

By Robert Taylor

A WALKOUT by 11 unions from the floor of the congress to protest over the planned return of the electricians' section of the AEEU engineering union to the TUC was narrowly averted yesterday after the intervention of the new TUC general secretary, Mr John Monks.

The union leaders involved agreed to wait for the outcome of a special TUC general council meeting on the issue, to take place this morning, before deciding on their next move.

But the issue has become

embarrassing to the TUC, which is trying to look to the future.

The 11 unions - including the TGWU general union, the construction union Ucat and the GPMU print union - remain dissatisfied with the peace formula agreed last week by the TUC general council to allow the electricians to return to the TUC, after six years' absence.

The TUC general purposes committee had rejected the unions' motion for an emergency debate on the subject. The unions had called for a reassessment of the electricians' re-affiliation issue, to

be undertaken not later than January 31 next year.

After finishing his first keynote speech, Mr Monks had to leave the platform and spend an hour arguing with the 11 unions. With television cameras outside the meeting room's glass door, Mr Monks had to use all his conciliatory skills to head off trouble which would have tarnished his inaugural address.

The 11 unions want an unconditional AEEU guarantee to abide by TUC rules, its acceptance of TUC dispute committee awards, and an end to AEEU recruiting in parts of the construction industry.

## Directors 'boost earnings by 12%'

By Lisa Wood,  
Labour Staff

TOTAL earnings of top company directors rose by an average of 12 per cent in 1992-93, nearly three times the average increase gained by the workforce generally, say figures published yesterday by Income Data Services, the employment research group.

The analysis of directors' remuneration is drawn from annual reports from FT-SE 100 companies covering trading years ending between September 1992 and March 31 1993. The average increase for the workforce to June, according to government figures, was 3.5 per cent.

IDS also gave the median increase of 8 per cent for top directors, which it said may perhaps more accurately reflect the situation because average figures were heavily influenced by large increases. There was an enormous range of increases and decreases around the levels, IDS said.

The highest increase was at Carlton Communications, the media group, where the chairman's total emoluments jumped by 84.2 per cent to more than £530,000 - made up of a 42.5 per cent salary rise and a performance-related bonus of £120,000 from a newly established scheme.

IDS said: "In a spirit of greater openness the annual report outlines the rationale for the rise."

Carlton yesterday pointed to a special remuneration committee's report. It concluded that the chairman's salary "did not recognise his contribution to the company or its progress over the last year, nor did it reflect the market level for such a position."

At the other end of the spectrum total earnings of the food group Argyl's top director dropped by 43.9 per cent. IDS said this reflected the fact that a long-term bonus was paid in the preceding year and such bonuses were awarded only every three years.

## Major attacks Euro-sceptic MPs

Financial Times Reporters

GOVERNMENT hopes of an autumn recovery in popularity were boosted yesterday by a largely warm response from Conservative activists to a rapid tour of south-west England by Mr John Major, the prime minister.

Mr Major underlined his determination to regain control by launching a scathing attack on the Conservative Euro-sceptic wing, which he blamed for much of the disunity which has dogged the party since the 1992 general election.

He blamed many of the government's difficulties on its small majority in the Commons. "He was very vehement indeed on the 20 or so dissenting MPs," said one official. "He said this effectively reduces his majority to five."

The trip marked the start of a government attempt to fight back from the battering it has taken in the last year over Maastricht and the economy.

Mr Major signalled his intention to take a firmer grip on the government by giving a clear indication that spending on health and social security will be cut in the long term.

The pledge, in an article written for evening newspapers, will increase his room for manoeuvre in the face of a threatened rebellion by right-wing cabinet ministers seeking spending cuts in the November budget.

Mr Major's helicopter trip to the south-west was ridiculed by Mr Paddy Ashdown, the Liberal Democrat leader, who claimed it reflected Conservative "panic" about the party's ebbing support in the region.

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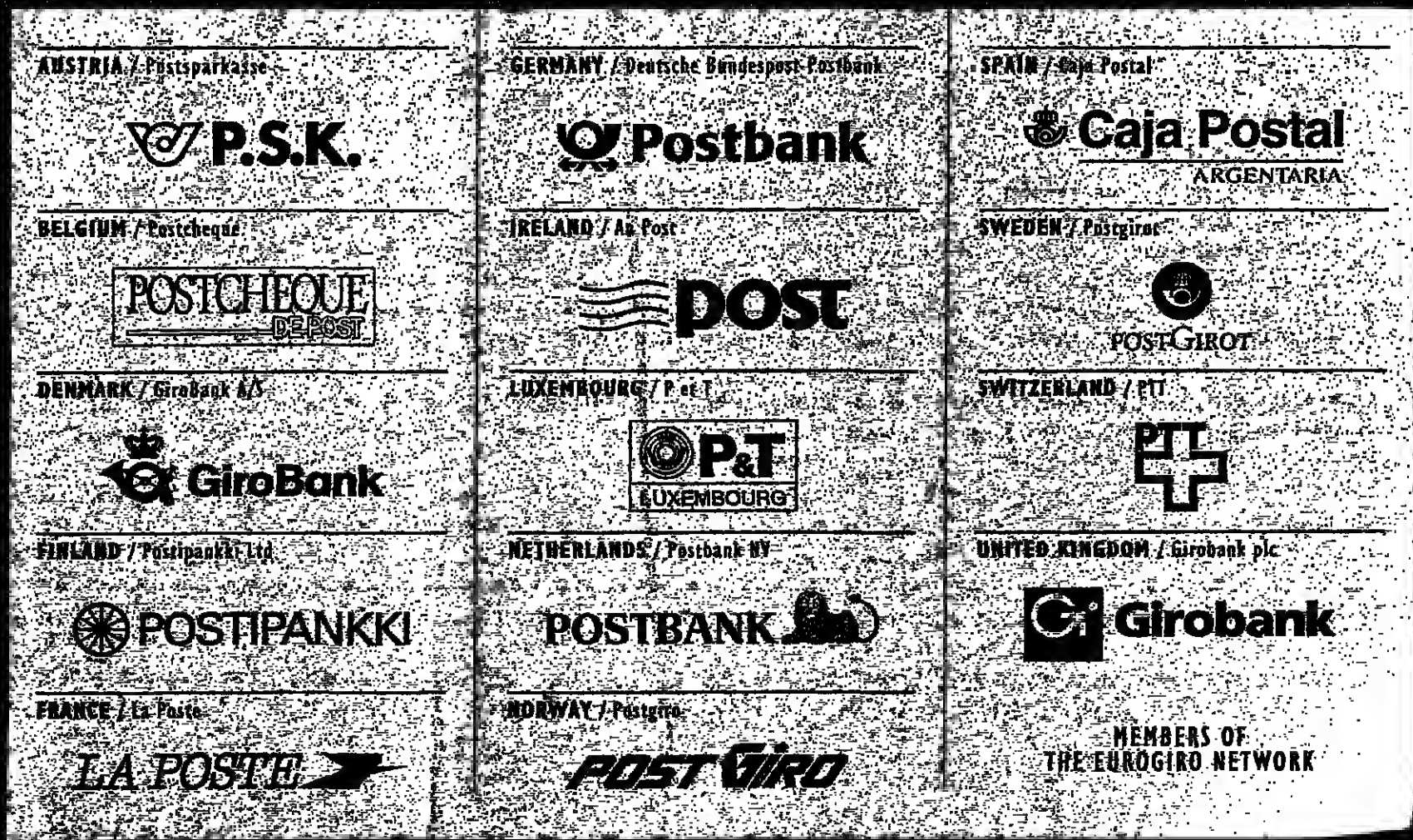
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## MANAGEMENT: MARKETING AND ADVERTISING

## Shape of things to come

Philips, the Dutch electronics group, has announced an abrupt change of design policy in response to environmental concerns and a growing sense that product design should do more to reflect the cultural identity of target markets.

Speaking at the Design Renaissance Conference in Glasgow this week, Stefano Marzano, the company's director of corporate design, called for a "new ethic" within the industrial design profession. "As we approach the millennium, we are being confronted with the effects of a gross imbalance in material circumstances around the world. We must try to restore the balance in our natural environment and in our social and cultural environment."

Conferences on design often include such statements. The difference is that Marzano speaks from a power base within a large-scale manufacturing industry. If pursued to its logical conclusion, his sentiment would represent a U-turn for Philips which followed a globalist design policy until Marzano's appointment in 1991.

Philips makes identical "global" products in its manufacturing sites worldwide. It now proposes to reflect the cultural preferences of segmented markets in its products.

The shift sends an important signal to other manufacturers. Moves are in hand at Philips to factor new thinking about sustainable growth and product life-cycle assessment into the development process. But Marzano extended the scope to social and cultural issues. Adopting such a policy would amount to a new ethical standard. "We must not fall into the trap of designing products with features people don't need. What we can do instead - and this is where we should be competing - is to give those products cultural significance and value."

Hugh Aldersey-Williams

With US President Bill Clinton recently achieving some success in his attempt to lift the ban on gays in the military, plus his appointment of a leading lesbian politician, Roberta Achenberg, to the White House, the homosexual community is gaining wider social acceptance in America. At the same time companies in the US are taking increasing note of gays as a distinct consumer group.

Approximately 10 per cent of the adult population, or 18.5m people, is thought to be homosexual in the US. So the new attention is, perhaps, hardly surprising.

There is little loyalty today from the consumer, but we find that gay consumers exercise great loyalty to those companies that support or recognise them," says Taylor Ingraham, director of marketing for the North American division of Virgin Atlantic Airways.

There are enormous benefits attached to tapping into the gay market. As the majority of like-sex households are dual salaried without children, they fit into the marketers' favourite bracket of big spenders with high disposable income. According to Rick Dean, the senior vice-president of "Overlooked Opinions", a Chicago-based polling and market research firm specialising in homosexual consumers, the average gay couple has an annual income of \$50,000 (£33,500). Dean maintains that gays are avid travellers and purchasers of high-quality products in almost every market sector.

Consequently, industry leaders such as Banana Republic, Giorgio Armani and Virgin Atlantic Airways have begun advertising their products in Out magazine - one of approximately 150 gay publications in the US.

But does gay marketing work? Banana Republic refuses to comment on the motives behind its gay marketing programme but will say the company is planning to continue the advertising campaign in Out magazine for the foreseeable future - in itself proof that the programme is working.

Ingraham, on the other hand, is able to identify tangible results from Virgin's alternative marketing campaign and says: "We have made a number of large-scale bookings from these ads. Plus, we have had calls from people thanking Virgin for the advertising and for addressing them specifically. Like any other sector of the community, gays will support those companies and organisations that support them."

Joseph Ellert, a freight forwarder with an international shipping company based in San Francisco, regards himself as a classic gay consumer. He applauds those companies that recognise him and other homosexuals as valuable customers.

US companies are recognising the buying potential of the homosexual community, writes Kate Button

## The gay consumer



San Francisco: valued customers in the gay community

"We have the bucks, in fact we have more money to spend than many other sectors of the market. If I see something advertised in the gay media, I am more likely to take a second look at that product and consider purchasing it, than if it was advertised in a straight publication. It shows that the company recognises we exist and addresses us directly," says Ellert.

It would appear that corporate America is starting to wake up to the power of the gay consumer. While undertaking market research for various clients considering a launch into homosexual markets, Dean found there are business opportunities abounding in this traditionally ignored sector.

As a result he set up a long-distance telephone company in competition with AT&T, Sprint and MCI. "Community Spirit" allocates 2 per cent of every telephone bill to the subscriber's chosen gay, lesbian or AIDS charity. "We took a benign, non-eventful product and gave it a gay identity," says Dean.

Within seven months of the launch, Community Spirit has 20,000 subscribers and attracts on average 1,000 new accounts a week. Among its subscribers are not only gay consumers, but parents of children who have AIDS, individuals sympathetic to the gay concerns and issues.

But if such profit and altruistic benefit are to be achieved from

courting the gay market, why haven't marketing gurus tuned in earlier?

According to Angie Novak, product manager of Paper Moon Graphics based in Los Angeles, some companies are still sensitive to a possible stigma attached to associating their products with a gay market. She believes that less progressive companies are afraid of alienating "straight" consumers who might prefer not to purchase products and services openly targeted at the gay sector.

When Paper Moon first launched its "Alternative Lifestyle" line of greetings cards, featuring gay couples and gay scenarios in a clean and decent but humorous manner, the line did well in big cities such as San Francisco, Los Angeles and New York. "But we came across some challenging buyers in less progressive areas, like Salt Lake City," recalls Novak.

Paper Moon plugged a gap in the \$5.3bn greetings card market, which was not being met by industry leaders. Furthermore, Paper Moon donates 5 per cent of "Alternative Lifestyle" proceeds to gay-affiliated charities.

Equally, Ingraham clearly states that Virgin Airways is not afraid of alienating straight customers by attracting gays.

"Why should there be a stigma against gays?" she asks. "We don't exercise any stigma against heterosexuals. People are people, they are all the same."

Gay advertising is not targeting gays any differently from other consumer sectors. We are just targeting them in an environment they enjoy and in which they feel comfortable. My primary aim is getting as many people on board our planes as possible."

The US is not alone in identifying the advantages of courting a gay clientele.

A former female buyer in a leading UK menswear chain noticed a gradual increase in sales of g-skins, thongs and "skimpies" for men.

"Branch managers were demanding higher stock levels, as they claimed women were buying them for their husbands and gays were buying them for their partners, their friends and themselves." The buyer, whose career blossomed as a result, recognised that branches in towns with a strong gay affiliation sold greater quantities of the risqué men's underwear than branches in other areas.

While some companies attribute their success in gay marketing to the fact that they support the gay community by contributing to affiliated charities, others are discovering that if the product is right and the marketing is correctly targeted, success will follow in the gay market - as in any other sector.

## Not just a question of price

Guy de Jonquière examines the new challenges facing retailers

Branded consumer goods manufacturers would do better to meet shoppers' growing demands for better value for money by improving product quality and service, rather than simply cutting prices, according to the Henley Centre\*, a UK market research company.

The company says opinion surveys for the latest edition of Frontiers, its annual study of European consumer markets, have found that while recession has made low prices a more important issue for some consumers, for most it is still far from the overriding consideration.

Indeed, in Britain, France, Italy, Spain and the Netherlands, fewer consumers than two years ago said they always looked for the cheapest products.

The only exception to the trend was Germany - particularly the eastern part of the country. However, European consumers are also becoming more insistent on getting what they pay for. Fewer than in 1990 - at the peak of the economic boom - said they believed that highest price equalled highest quality.

This shift in perceptions was most pronounced in relation to cosmetics, and smallest in relation to wine, spirits and furniture.

As these examples suggest, judgments on what constitutes good value differ widely, depending on the type of product in question.

For instance, almost three quarters of consumers named lower prices as the best way of improving the value for money of clothing. But fewer than a third said the same of food, with twice as many saying what they most wanted were products containing more natural ingredients.

But the Henley Centre says the biggest challenge confronting European consumer goods manufacturers in the value-conscious 1990s is the growing popularity of retailers' own-brand products.

Increasingly, European consumers prefer supermarket own-brand lines not only because they are cheaper than manufacturer brands, but also because they are perceived to offer equal or superior quality. "The key point is that the 'best' brands are now often the retailer ones," the Henley Centre says.

The most striking evidence of this trend is provided by a survey of customers of Albert Heijn, the leading Dutch supermarket, who were asked to compare the retailer's own-brand products with those of Nestlé of Switzerland, the world's largest food manufacturer, which included trustworthiness, product innovation and packaging, as well as price - Albert Heijn was rated far ahead of Nestlé. The retailer's biggest perceived advantage was in caring about its customers.

The Henley Centre concludes consumer manufacturers need to respond to these challenges by working harder to improve the performance and functional qualities of products and relying less on pure imagery to sell them.

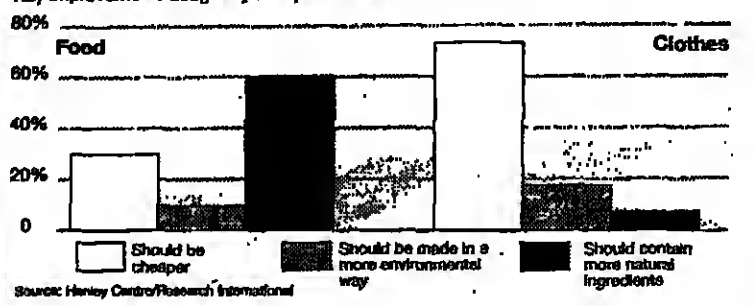
They also need to find new ways to communicate directly with consumers which do not involve going through retailers.

In particular, they should put more emphasis on in-store programmes, after-sales support and service.

\*Henley Centre, 9 Breda Road, London EC4A 3AY. Tel: 071-353 9961.

## How to keep the customer happy

Key improvements sought by European consumers



Source: Henley Centre/Research International

## FT CONFERENCES

## FINANCIAL REPORTING IN THE UK

LONDON, 27 September  
This will be the third meeting the Financial Times has arranged on the ASB's proposals for changing accounting standards in the UK. The intention is to review the changes proposed in recent weeks and their impact on reported company profits and balance sheets from the point of view of all the interested parties. Keynote addresses will be given by Sir Bryan Carsberg, Member of the Accounting Standards Board and Edwin Glasgow QC, Chairman of the Financial Reporting Review Panel.

## WORLD MOBILE COMMUNICATIONS

LONDON, 29 & 30 September  
The Financial Times annual conference brings together leading figures from the world of mobile communications to examine the key issues facing service providers, manufacturers, users and investors. Mobile communications growth and technologies will be reviewed as well as the challenge of developing a mass market personal communications system. Speakers include: George Schmitt of Mannesmann Mobilfunk, Dennis Leibowitz of Donaldson Lufkin & Jenrette, Seth Mitych of Swedish Telecom Radio, John Deffen of US West New Vector Group, Wolf-Achim Seidel of the German Ministry of Posts and Telecommunications and Bruno Lescaux of the French Ministry of Industry, Posts, Telecommunications & Exterior Commerce.

## FT-CITY COURSE

LONDON, 4 October - 22 November  
The Course, arranged with the City University Business School, is held on one afternoon a week for eight weeks. It will give those working in the City or servicing the financial sector a broad understanding of how the major financial institutions in the City of London operate.

## RETAILING - NEW OPPORTUNITIES, NEW CHALLENGES

LONDON, 12 & 13 October  
This topical conference will discuss international growth opportunities and new routes to market; look at ways of improving performance and profitability; and consider the importance of the customer. Speakers include: Sir Geoffrey Mulcahy, Kingfisher; Gerald Hogan, Home Shopping Network Inc; Paul Moulton, Costco Europe (UK) Limited; Joseph Kramper, Jr, McArthur/Glen Europe and Paul Morris, Goldman Sachs International Limited.

## INTERNATIONAL PACKAGING &amp; THE ENVIRONMENT

LONDON, 18 & 19 October  
Legislation, opportunities and problems facing the packaging industry and its customers will be reviewed together with co-operation in the packaging chain, recycling versus incineration. Speakers include: The Rt Hon John Gummer MP, Secretary of State for the Environment; Clemens Stroetmann from the German Federal Ministry for the Environment; Yannis Paleokostas of the EEC; Thierry Marraud of St Gobain Group and Walter Brinkman of Coca-Cola International.

## WORLD ELECTRICITY

LONDON, 16 & 17 November  
This annual meeting - the seventh in a series arranged jointly with Power in Europe - will provide a high-level forum for utilities and their regulators, as well as suppliers of equipment and services, to discuss how the electricity industry is responding to a more competitive environment. Issues to be addressed include Third Party Access, privatisation in emerging markets, tariffs and pricing in the CIS, fuel sources in a changing environment and the US experience of demand side management.

## THE ECONOMICS OF RAIL PRIVATISATION - OPPORTUNITIES FOR THE PRIVATE SECTOR

LONDON, 22 November  
This high-level one-day conference will examine the opportunities - and pitfalls - in passenger service franchising, the new leasing model in railway rolling stock and the management of track infrastructure. Speakers include the Rt Hon Roger Freeman MP, Minister for Public Transport; John Swift QC, Rail Regulator Designate; Roger Salmon, Franchising Director Designate and Robert Horton of Railtrack.

## THE FIFTH FT PETROCHEMICALS CONFERENCE

LONDON, 22 & 23 November  
This year's conference will review the challenges facing the petrochemical industry, consider pricing, restructuring and competition. Authoritative speakers from Europe, North America, the Middle East and Latin America will examine key market developments.

All enquiries should be addressed to: Financial Times Conference Organisation, 102-106 Clerkenwell Road, London EC1M 5SA. Tel: 071 814 9770 (24 hour answering service) Telex: 27347 FTCONF G Fax: 071 873 3875/3988

## PEOPLE

## Gestetner: Inchcape takes hold

Inchcape, the international services and marketing group which in May took a 25 per cent stake in Gestetner Holdings, is strengthening its ties with the struggling office and photographic equipment distributor.

Stephen King, 44, Inchcape's director of financial control since 1987, has been appointed finance director at Gestetner. He replaces Brian Copey, who is leaving to live full-time in Monaco, where he has been resident since 1988.

King will be continuing a close working relationship with his current boss, Rod

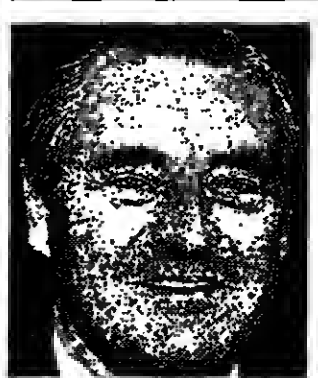
O'Donoghue, Inchcape's finance director, who joined the Gestetner board as a result of the May deal, along with Andrew Cummins, Inchcape's strategic director.

In spite of the close ties between the two companies, King's name was put forward by an international executive search agency, which came up with five candidates. The choice was finalised after David Thompson, until recently non-executive chairman of Rank Xerox in the UK, agreed to move to Gestetner as part-time chairman.

Inchcape has an option to

increase its holding in Gestetner to 25 per cent by July next year. Ricoh, the Japanese photocopier manufacturer, already has a 24 per cent stake in the company, which is the world's largest independent distributor of office equipment.

Gestetner's Australian management, under Basil Sellers as chairman and chief executive, moved the group away from stencil duplicators towards photocopiers, but also made an ill-judged expansion into the photographic equipment market. Sellers remains on the board as a non-executive director.



Lord Kingsdown, (above) the former governor of the Bank of England Robin Leigh-Pemberton, has picked up his first non-executive directorship. The job is a plum one, to be on the board of Glaxo,

Europe's largest pharmaceuticals group from the beginning of October.

He joins an illustrious board which includes Lord Howe, the former cabinet minister, the ubiquitous Sir John Cuckney, and Professor Sir Richard Southwood, vice-chancellor of Oxford University.

Clive Leach, group chief executive of YORKSHIRE-TYNE TEES TELEVISION, also becomes chairman on the retirement of Sir Derek Palmer. Ward Thomas becomes deputy chairman replacing Sir Ralph Carr-Elison, who remains chairman of Tyne Tees, and Victor Watson becomes chairman of Yorkshire Television.

Bob Knighton, formerly director, group IT, has been appointed md, operations division, and Gareth Jones, formerly director retail operations, is appointed Treasurer of ABBEY NATIONAL. They both join the board. Charles Toner, formerly md, new businesses, becomes md, retail division. John Bayliss, the deputy chairman, will retire at the end of the year. John Malone, md of Mortgage Shops and a director of Slater Hogg & Howison, has been appointed to the board of TSB PROPERTY SERVICES, their holding company. Graham Waddell has been appointed a director of SPEIRS & JEFFREY.



Jon Foulds, chairman of Halifax Building Society since 1989, has been appointed an independent member of the Bank of England's board of banking supervision, otherwise known within the bank as "Bobs". He takes up his appointment to Bobs following the death of Nigel Robson in February this year.

A former chief executive and deputy chairman of the venture capital 3i group, the 61-year-old Foulds holds a number of other directorships including Eurotunnel, London Atlantic Investment Trust and Mercury Asset Management.

In mid-1990, he left the engineering and aerospace group Bramer where he had been non-executive chairman from 1988.

An advisory body, Bobs has a widely roving brief to speak to the governor of the Bank of England on a variety of issues, particularly general principles and policy concerning supervision of institutions which are authorised to act under banking legislation.

It has teeth, if it cares to use them: during its last financial year, 1992-93, a period of upheaval in the aftermath of the collapse of BCCI, it met 19 times as opposed to its more conventional 11.

"Appointments to the board are made jointly by the governor of the Bank and the Chancellor of the Exchequer, and its members have the right to speak directly to the Chancellor if they feel the advice they are giving is being disregarded," says Foulds. The board has six independent and three ex-officio members from the Bank - the governor, deputy governor and head of banking supervision.

The shooting, skiing and tennis-playing - "when I have time" - Foulds will receive a remuneration of £11,000 annually for his five-year stint at the board.

## Preacher to help the angels

Venture capitalists tend to be snooty about accountants despite the fact that many come from the same background. A common complaint is that once an accountant gets involved deals become bogged down in reams of financial forecasts and scenarios.

But few venture capitalists would deny the contribution that John Hustler has made to the industry over the years. As head of venture capital at KPMG Peat Marwick, Hustler, has been an indefatigable toiler in the many committees set up to consider arcane issues such as the valuation of unquoted investments and performance measures for venture funds.

After Eton and accountancy training, Hustler, 47, became a partner at Peats in 1983. He has since helped the European Commission devise a venture capital scheme, advised three



UK small firms ministers on venture issues and spent two years as treasurer of the British Venture Capital Association.

He is now to practise what he has been preaching to many other entrepreneurs and is setting up on his own as a consul-

tant. As Hustler Venture Partners he plans to advise entrepreneurs seeking funding. "I want to look at the deals the venture capitalists don't back to see if I can help turn them into fundable propositions," he says. One area he hopes to develop is that of helping "business angels", wealthy individuals with a commercial background, to back new ventures. Hustler is particularly keen to get more money into early stage ventures.

This could prove quite a challenge because the venture industry has moved away from backing start-ups and early stage companies in recent years. But Hustler is not afraid to stick his neck out. He has been a vocal defender of the role of the accountant in the venture capital process when others have kept their heads down.



a question  
price  
eres examines the  
s facing retailers

Agriculture and the food industry enjoy a 'clean and green' reputation; Page 2

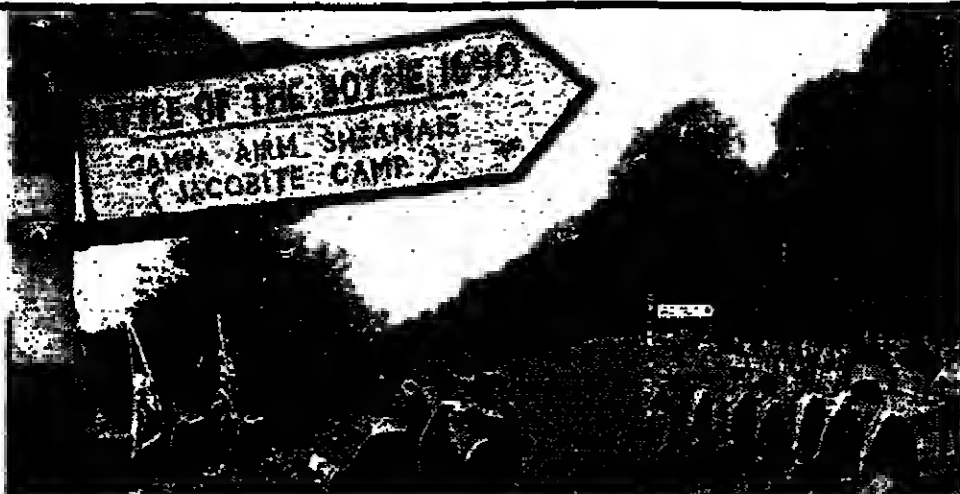
# NORTHERN IRELAND

An energetic rebuilding programme has given new life to Londonderry; Page 3

Thursday September 9 1993



A Korean-owned video recorder factory in Antrim



Orange Order marchers at the site of the battle of the Boyne - in the Irish Republic



In the UK, Belfast airport is second only to Heathrow in its volume of domestic traffic

Pictures: Tony Newman

## Signs of change are in the wind

Terrorist violence continues, but the economy is looking up, business confidence is strong, and cross-border economic co-operation brings hope for better political relations. Tim Coone reports

"THERE have been no bombings or sectarian-linked murders in Northern Ireland now for the past five years."

"The so-called 'permanent ceasefire' by the IRA and Loyalist paramilitaries has held, and British troop levels in the province have been reduced to only 10 per cent of what they were in 1982."

"Negotiators from the unionist and nationalist camps, together with representatives of the British and Irish governments, are now entering their final phase of negotiations for a permanent settlement of a dispute that has divided the people of the island since 1921."

"The settlement plan is expected to be put to a simultaneous referendum in both parts of Ireland within six months of the signing of the agreement by all parties."

Of course such a scenario is futuristic fiction. But it is not fantasy.

For this vision of a future settlement is central to the only publicly-acknowledged political dialogue taking place in Northern Ireland since the round-table talks between the main political parties in the province broke down with no agreement last November. That dialogue is between Mr John Hume, the leader of the Social Democratic Labour Party (SDLP), and Mr Gerry Adams, the leader of Sinn Féin - the political wing of the IRA.

Attacked by the Unionists for what they say is an effort to form a "pan-nationalist front", Mr Hume says the dialogue is "about agreeing an overall strategy for a lasting peace - and an overall strategy includes everybody."

"It is not a joint strategy as some people have tried to make out... what I want is a complete and utter cessation of violence on all sides... Gerry Adams is very serious, and the people he represents are very serious about these talks and their objectives."

So Mr Hume says: "I have never felt more hopeful in 20 years than I do now."

There are other grounds for believing that some change might be in the wind.

While the IRA's bombing campaign and the Loyalists' killings of Catholics show no sign of letting up, the language of Sinn Féin has taken on a decidedly more moderate and conciliatory tone over the past year. Sinn Féin spokespersons now talk of "inclusive dialogue" and "recognition of the Unionist identity". They even

say that a united Ireland - their preferred option - might not necessarily be the end result of a negotiating process.

Presbyterian ministers have been holding secret talks with paramilitary leaders on both sides over the past year, while the outlawed Loyalist Ulster Defence Association (UDA) recently announced that it is prepared to meet and talk to Archbishop Cathal Daly, the Catholic primate.

The Opsahl Commission, an independent body set up in 1992 to sound out a broad range of public opinion from across the province, concluded earlier this year that there is a strong desire for political compromise to end the violence - a message from the constituencies which, apparently, many of the province's politicians have still not heard.

Intriguing reports have also appeared, over the summer, of secret negotiations between the army and the IRA on a 60-point military de-escalation plan. These have been strenuously denied by both the Northern Ireland Office and

Sinn Féin, but they add to a more general impression that although the mainstream political process has ended up in limbo, nonetheless intensive efforts are being made behind the scenes to broker a peace.

The key to whether Mr Hume can now succeed in his more public efforts to achieve a cessation of hostilities, as a means of getting everybody around the negotiating table, will be whether the British government's stated position that it has no strategic interest in Northern Ireland, that it is neutral in the conflict, and has no preferred option for a settlement, will stand up under the strains of Westminster politics.

Just before the summer recess at Westminster, the Ulster Unionist Party (UUP) led by Mr James Molyneux, voted with Mr John Major and his Conservative party on a finely-balanced Maastricht vote. Mr Molyneux announced that the UUP would be giving its support to the Conservatives for the remaining life of the present parliament, but simultaneously



denied that any deal had been struck with the Tories.

But there now exist high expectations among Unionist politicians in the province that long sought after changes in the administration of Northern Ireland will take place over the next two years.

These include the establishment of a parliamentary select

committee on Northern Ireland, and for more powers to be handed over to local councils from the Northern Ireland Office (NIO). One UUP councillor in Londonderry says: "We have discussed and been lobbying for this at Westminster for some time."

If such changes were to be implemented unilaterally, the

Irish government has already indicated that it would consider this tantamount to a violation of the 1985 Anglo-Irish Treaty.

Mr Hume says: "Any secret agreement between the British government and one party in Northern Ireland would have no chance of succeeding, particularly if it is related to

restoring power to local authorities before it has been clearly established that any such power would be exercised fairly... To play party politics of that nature with Northern Ireland in order to stay in power is utterly irresponsible. Everybody will end up paying a price for it including the government that enters into such an agreement."

Abandonment of the talks process, and the adoption of a more unilateralist approach by the UK government, would deal a severe blow to Anglo-Irish relations.

Ministers from the two governments meet this week in London to review whether there is any life remaining in the talks process, and indeed whether they can still claim to share a bipartisan approach.

The Republic has indicated it might now take a different tack and seek the appointment of a US special envoy to the province. It is thought that such an envoy would not be as constrained about talking to Sinn Féin as would the Irish and British governments.

So while fresh approaches may be imminent on the political front, there is also optimism emerging on the economic one. The clouds of recession have already broken up over Northern Ireland and business confidence is now the strongest in years. Unemployment is beginning to fall and retail sales are growing.

Continued on next page

## QUAY DECISIONS

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## London, Dallas, Milan, Paris?

This 325,000 sq ft world class shopping centre with a weekly visit of some 250,000 people could be anywhere. It has a 120,000 sq ft Debenhams department store, trading on two levels (so it's not Dallas, Milan or Paris). Other national multiples include Laura Ashley, Virgin, Dorothy Perkins, Gap and Benetton to name but a few. With an affluent customer profile, (the 2nd highest percentage of any UK regional population earning over £30,000, coupled with an almost 20% lower cost of living) the retail performance in the city is above average for the UK, if not in the top ten. It also has a 1,600 space car park which is 25% of the city's total shoppers' car parking (that's London ruled out). So where is this world class shopping centre? To find out more write to CastleCourt, Belfast, Northern Ireland's premier shopping centre (oops, what a give away).

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## NORTHERN IRELAND II

Robert Rodwell examines the economy and explains why recession was less severe than on the mainland

## Political stalemate remains a constraint

Among Ulster's business community there is a general agreement with a view expressed in a recent NI Economic Research Centre report that the province has had a "good" recession.

Ulster's GDP scarcely blipped: in mainland Great Britain it fell by 3.9 per cent between 1990 and 1992. The number in work in Northern Ireland fell by very little and has remained close to its historically high peak of 1990. Such rise in unemployment as there was can generally be attributed to the arrival of newcomers on the job market.

Such are the demographic realities that Northern Ireland has to run fast in its job creation even to stand still in terms of its unemployment rate.

From Belfast, observers have been able to take a fairly relaxed view of the tribulations of the British economy since 1989. Although measured from a lower datum line, Ulster's dive was less steep. The big rise in unemployment nationally, particularly in southern England, was no more than what Northern Ireland had gone through in the early 1980s with the disappearance of much of its manufacturing base.

Two factors in particular explain the gentleness of Ulster's dive.

One is its heavy dependence for employment on the relatively recession-proof public sector. It accounts for some 40 per cent of employment, according to Doctor Van Barooch, professor of applied economics at the University of Ulster. "The spending of that 40 per cent means that about 70 per cent of jobs are ultimately dependent upon the public sector."

Equally important is the absence of the speculative property boom which occurred

**If you have a job at all in Northern Ireland you are unlikely to be crippled by a mortgage you can no longer afford**

In Great Britain during the late 1980s. It simply did not happen in Northern Ireland. House prices rose steadily, but there was none of the dramatic surge which led so many people into high mortgages and, with market slump, into the negative equity trap. There have been no significant repossession: if you have a job at all in Northern Ireland you are unlikely to be crippled by a mortgage you can no longer afford.

Disposable incomes have not, therefore, been under such heavy pressure; the Northern

Ireland public has continued to spend to an extent which causes many first-time visitors to express surprise at apparent prosperity where the image had been one of deprivation.

But confidence has been bruised by the national gloom. It is rated low-to-medium rather than medium-to-high by Paddy Murphy, chief executive of the Bank of Ireland in Northern Ireland: "We are seeing a very slow pick-up - slower than we would have expected."

While the Bank of Ireland reports a 60 per cent increase in mortgage business this year over last, some of this is accounted for by considerable growth in its market share. But credit demand among companies is also markedly up. Mr Murphy says: "There have been a lot of approvals recently, but borrowers are slow to draw the money. They're getting ready for expansion, but the trigger to make them go is still not there."

That cannot be said for Ulster's largest family firm, Desmond and Sons, garment manufacturer, which recently announced a £24m expansion which will add 600 jobs and a new plant to the 2,700 workers in 11 locations already. The announcement gave particular satisfaction to economic planners in Belfast because this

investment is in the province's poorest region, west of the river Bann. Moreover, it is being made by an indigenous, locally-owned company rather than some remote multi-national with no deep commitment to the province.

"A number of people we're working with are looking at projects, at acquisitions. They haven't all acquired them, but six months ago they weren't even looking. There is a re-awakened interest in new activity," says Mr Tony Hop-

**For 20 years, successive governments have shaped policies to local need, not the national dogma of the day**

kins, managing partner in Northern Ireland of Touche Ross, accountants. Mr Hopkins brings a particular perspective to a region where, he says, the close intermingling of public and private sector decision makers is unique in the UK. For 10 years until June last year, he was on the staff of the Northern Ireland Industrial Development Board - the last four years as its chief executive. He pays tribute to the way in which successive governments have shaped policies, for 20 years, to

the local need rather than the national dogma of the day.

Mr Hopkins claims that Northern Ireland managers are now considerably more professional and competent than a decade or so ago: "The message of competitiveness is now well embedded. They have got out into the export markets and overcome the diffidence factor. The business basics are now right, and there is a great bank of talent coming out of the schools and universities. The province is well poised - and the last year has been good for inward investments."

No local observer would argue with Professor Barooch's contention that closing the big employment gap between Northern Ireland and mainland Britain will require radical restructuring and regeneration of the province's manufacturing base. "As an engine for employment generation, the public sector has run out of steam. The only sector which isn't reliant on public largesse has to be manufacturing and that is the sector which has run down most in the past 40 years."

The years are long gone when Belfast alone was a world centre in several industries now much diminished: shipbuilding, linen; ropes; textile machinery and tobacco.

There must be closer links between finance and industry

and a pro-active policy to back winners - on the lines of East Asian "tigers" (Japan, Korea and Taiwan) - says Professor Barooch.

He and others look anxiously at the Irish Republic's success in attracting the so-called "sunrise" industries despite an industrial infrastructure much less advanced than that in Ulster. It is a reminder of what might have been achieved were it not for the effects of more than 20 years of political instability and terrorism.

Business interests are themselves trying to produce some easing in the political stalemate on which terrorism thrives. The Northern Ireland Chamber of Commerce and Industry has for some months been holding unpublished working breakfasts with the various party leaders; sell-out occasions at which the politicians have been implored by the assembled membership to work together for the province's economic good.

"First results have been encouraging but we have a long way to go. There is an amazing amount of agreement between them on economic issues and how to achieve our aims," says Paddy Murphy, in his other role as the chamber's vice-president.

"So far we've only boosted them apart. The next step will be to get them together."

## KEY FACTS

	Northern Ireland	UK
Area (sq km)	13,483	242,520
Population (000's)	1,594	57,649
Age structure (% of total pop.)		
Below 18 years	25.8	20.3
Above pension age	15.0	18.3
Births per 1,000 of the population	16.5	13.8
Births outside marriage (% of total)	20.2	29.8
Economy		
GDP (£ bn)	10.5	497
GDP per head (£)	8,567	8,516
Disposable income per head (£)	6,112	7,071
Consumers exp. per head (£)	5,349	8,381
Total consumers exp. (£ bn)	8.5	367.8
Total investment (£ bn)	1,289	53,938
Average house price (£, Q2 1993)	40,777	65,025
Male unemployment rate (%)	16.0	13.8
Female unemployment rate (%)	7.6	5.4
Unemployment rate (%)	13.7	10.2
Companies registered	53.2	1,716.3
Stock at end 1991 (000's)	6.3	324
Net gain 1991-92 (000's)	364	14,328
Manufacturing investment (£m)	531	19,906
Total investment (£m)	1,289	53,938
Education, % of school leavers with more than 3 'A' Level passes	18.8	15.6
Males	22.8	16.1
Females		
no graded results	16.1	9.2
Males	9.8	6.5
Females		
Health		
Health expenditure per head (£)	432.6	353.4
Health service staff per 10,000 pop.	242.7	185.4
Waiting Lists	22.2	8.8

All figures 1991 unless stated.  
(1) Unemployment in June 1993. Not seasonally adjusted.  
(2) 1990. (3) Persons waiting over a year as % of total.  
(4) Waiting lists for England only.  
Source: Regional Trends 28, 1993, Employment Gazette, Halifax Building Society.

Agriculture enjoys a clean and green image second to none, writes Michael Drake

## Expertise on call around the world

THE face of agriculture, Northern Ireland's largest industry, is changing.

Gone are the times when a trip to market was little more than an outing to a provincial town 20 miles away. Today the world is smaller: produce from the province's farms and factories is sold in far flung places.

And greater interest is being taken in what the industry has to offer, not only in the way of foodstuffs, but also in livestock on the land. For example, buyers from as far away as Korea have made no fewer than four visits to Northern

Ireland in search of pedigree pig breeding lines. On their most recent trip, last month, they picked up 120 high quality boars, bringing the number of animals they have bought in the province to a total of 500.

It was an outbreak of Blue Ear disease among the main-land pig population in Britain that first focused Korean attention on Northern Ireland pig farms. Like many visitors before them, the Koreans have discovered that Northern Ireland has an enviable animal health record.

Because it is part of a small

island, Northern Ireland's "clean and green" image is second to none. This has been reinforced over the past couple of years, since the introduction by the Northern Ireland Livestock Marketing Commission, of a Farm Quality Assured Scheme for beef and lamb.

To date the scheme has attracted some 3,251 farmers who between them account for 69 per cent of the annual beef slaughtering in Northern Ireland. Beef from the province is now marketed in Holland under the Greenfields label,

through the Albert Heijn supermarket chain which dictates that supplies are from Quality Assured farms.

A party of six Northern Ireland representatives of meat companies, on a mission to find niche markets, flew to Brussels two months ago, taking with them local beef and lamb for a special dinner. As a result of their trip they have identified significant sales outlets for both products; they intend to increase sales orders to Belgium.

With the prospect of a steep decline in the level of EC

intervention buying, an increase in marketing missions from Northern Ireland is to be expected. Three years ago, some 40 per cent of all slaughtering in Northern Ireland were sold into intervention, and the fact that this facility could drop to about 10 per cent in two to three years is a sobering thought for those who market meat.

On a more cheerful note, Northern Ireland farmers have been offered an opportunity to supply two important continental supermarket groups with bull beef. Mr Brendan McGahan, chief executive of the Livestock Marketing Commission, says: "The Edah group, which specialises in young bulls, is presently being supplied by Dutch and French farmers. It sees supplies from its own country becoming scarcer as stocking rates, fertiliser use restrictions and quota considerations begin to reduce stock numbers on their supply farms."

For years, dairy farmers throughout Great Britain and Northern Ireland have used their own milk marketing boards. Now that is coming to an end. Something of a "milk war" has developed in the province between Nestlé, the international giant, which has a factory at Omagh in Co Tyrone; Strathroy Milk Marketing, which is based nearby; Pritchitt Foods of Newtownards; Dale Farm, which is part of the Northern Foods operation; and Leckpatrick Dairies, which is now owned by Cork-based Golden Vale.

All have one thing in common: they want to link up with the province's dairy farmers - there are more than 6,000 - in direct purchase contracts.

As it dies, the Milk Marketing Board (MMB) is asking producers to help form a voluntary co-operative - but the future of Dromona Quality Foods, the MMB's marketing arm, is a bone of contention. The MMB wants to retain it under the umbrella of the new co-operative; the Northern Ireland Dairy Trades Federation and several processors want a divorce between the MMB and Dromona. The Office of Fair Trading's opinion is that "the continued retention of Dromona Quality Foods within the new co-operative would be unwelcome in competition".

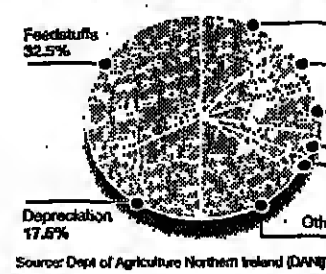
Looking at Northern Ireland's farms during the past year, the most recent government statistics show gross output rising by 9 per cent to £355m in 1992, while expendi-



Ulster farmers have an opportunity to supply two important continental supermarket groups with bull beef

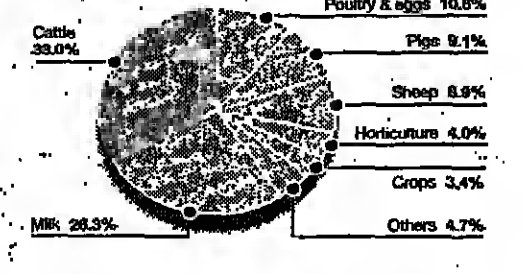
## Agriculture

Composition of total expenses, 1992



Source: Dept of Agriculture Northern Ireland (DAWI)

Composition of total receipts, 1992



At 2.6m, there are about a million more sheep than people in Ulster

market both at home and internationally."

Expanded sales to Great Britain and Europe, coupled with aggressive marketing on the international scene through Halib Foods International, has contributed to the success. Halib, the wholly-owned, exporting subsidiary of Dromona Quality Foods, has just clinched orders worth £1.6m to supply milk powder to three important new overseas outlets in, respectively, El Salvador, Bangladesh and a Central African state. It is hoped that this could develop into long term business worth £5.5m a year.

Looking at Northern Ireland's farms during the past year, the most recent government statistics show gross output rising by 9 per cent to £355m in 1992, while expendi-

ture rose by 3 per cent to £513m. Total income from farming in the province - a land area about the size of Yorkshire - rose by 24 per cent to £224m. The Department of Agriculture says that in real terms, after allowing for inflation, this represents a rise of 20 per cent to a level well above the 1980s average.

Provisional estimates of gross annual capital investment in agriculture indicate little change from the relatively low level of investment in 1991. At £103m, total investment was less than 1 per cent above the level of the previous year.

While investment in plant, machinery and vehicles fell by 7 per cent to £45m, investment in buildings and works rose by 7 per cent to £58m, almost all the increase taking place under the Agricultural Development Operational Programme.

The beef breeding herd increased by 4 per cent, to 284,000 cows, during the past year; but numbers of dairy cows fell by 2 per cent, to 269,000. A slower rate of expansion in the sheep flock continued in 1992, with a 2 per cent increase in both the breeding flock and total sheep numbers. (But at 2.6m there are still more sheep than people in Northern Ireland.)

Cattle account for 33 per cent, sheep for 8.9 per cent of Northern Ireland's total receipts. The dairy sector at 26.3 per cent, the poultry and eggs sector at 10.6 per cent and the efforts of pigs producers, with 8.9 per cent, make up much of the remainder. Horti-

culture, at 4 per cent, contributes more than crops, which produce only 3.4 per cent of farming receipts; other small items make up 4.7 per cent.

Ulster farmers will say that things on the land are just as difficult as they ever were... but they will continue to make a living from it. In the wider context, Northern Ireland expertise in food and farming is widely used around the world, especially in the Middle East, where the Maststock Organisation has been "greening the desert" for more than a decade.

Now the spotlight falls on Russia. Researchers from the faculty of agriculture and food science at Queen's University, Belfast, are spearheading an EC-funded project aimed at improving the efficiency of the supply of fresh produce and dairy products in Russia. The Queen's team is part of a consortium which has won funding of £650,000 under the Community's Tacis programme. Technical Assistance to the Commonwealth of Independent States and Georgia - to lead an investigation co-ordinated by Northern Ireland Public Sector Enterprises Ltd. The consortium will carry out a study of the milk, fruit and vegetable sectors and establish a food control programme in the Serpukhov district, part of the Moscow region, about 100 kilometres south of the capital. The project is seeking to help with the privatisation of Russian farms and food distribution organisations.

## Signs of change in the wind

Continued from previous page

All these act as spur to new investment such as that in Londonderry, where £65m is being spent on a new shopping and office complex in the city which will serve an economic hinterland on both sides of the border.

Several important new foreign and local investments have been announced in the past year, and continuing infrastructural improvements in the roads, ports and airports are making the province an increasingly attractive location for both business and tourism.

Last year a record number of 1.35m visitors came to Northern Ireland, and a further 20

per cent increase is forecast for this year.

Meanwhile, Northern Irish farmers are enjoying rising incomes, despite reforms to the common agricultural policy. The food processing industry appears to be adapting well to the cutbacks in intervention buying; instead, it is successfully exploring new markets within Europe. The continuing importance of agriculture to the economy can be appreciated from the fact that about 50 per cent of exports through the busy ro-ro (roll on, roll off) port of Larne are of agricultural produce.

Economic analysts believe that any sustained recovery must await recovery elsewhere

in the UK and Europe, and that the severe problem of long-term structural unemployment in the province has still to be adequately addressed. A regeneration of manufacturing industry is considered particularly important, to balance the declines in traditional industries such as shipbuilding, heavy engineering and textiles.

The government insists that it is doing all it can; indeed, its £30m annual subsidy to Northern Ireland has resulted in a housing and communications infrastructure that is now superior - or at least comparable - to many other parts of the UK. Ministers argue that it is the IRA bombing campaign and the political violence

which are holding back economic growth and the necessary private inward investment.

Evidence for that can be found in the city of Londonderry - once the symbol of the "troubles". Here, local businessmen are brimming with confidence, "power-sharing" on the local council has got the politicians working together for the city, and IRA bombs have not been heard for years.

That is the picture of Northern Ireland which Mr Hume would like to see replicated in the rest of the province. If, indeed, his talks with Mr Adams are progressing as satisfactorily as he claims, then it need not be so far-fetched to imagine a very different outlook facing Northern Ireland in another year's time.

The business at the heart of it all

Northern Ireland Electricity





**O**n September 22 a small, narrow-gauge steam train will make its last journey around Lord O'Neill's Shane's Castle estate on the shores of Lough Neagh in County Antrim.

Lord O'Neill, who installed the railway in 1971, says that with only 30,000 passengers each year, it did not pay its way. Northern Ireland now offers too many attractions for too few tourists. "Unless peace breaks out, some of them won't be sustainable. We need to watch the total number and we have to go for quality, not quantity."

He is himself a former chairman of the Northern Ireland Tourist Board (NITB). His remarks strike a chord in the industry. Promoters and proprietors bemoan Ulster's wettest, most sunless summer since reliable records began. Thousands of what would have been the industry's home-trade visitors scrambled for last-minute bookings to seek sunshine elsewhere.

Has the province, in a frenetic burst of development activity enthusiastically supported by the NITB and funded with big subsidies from both the EC and the International Fund for Ireland, over-catered for the level of tourism it can reasonably expect while its external image remains so poor?

Presenting his 1992 annual report, Mr Hugh O'Neill, the present NITB chairman, unabashedly announced that the board

Tourist industry now offers too many attractions for too few tourists, writes Robert Rodwell

## Chilling commercials do not help



The conventional seaside resort of Bangor, in County Down, has new wet weather entertainments

was currently involved in the development of some 350 projects. The NITB has just published a brochure on no fewer than 24 developments either just opened or to be opened by the end of this month.

They include multi-million pound "star attractions" such as the £4.5m interpretative centre at Navan Fort outside Armagh - the *Emain Macha* of Gaelic legend, seat of the ancient kings of Ulster. Then there is the Tower Museum in Londonderry, which capitalises on the rich history of western Europe's last fortress city with ancient walls intact. A big "discovery centre" on Lough Neagh will be a success if it does not drive the ambient bird life away.

Carrickfergus, on the Antrim coast, hid its magnificent Norman castle behind a screen of enormous oil tanks and paid scant regard to its archaeological heritage - until recently. In July this year the innovative £2.5m "Knightbridge" monorail opened, carrying visitors through tableaux of Carrickfergus's history from 831 AD almost to the present day.

Northern Ireland's 26 district councils,

deprived of most of the powers enjoyed by their mainland counterparts, have clamoured for grants to exercise their muscle in one of the very few sectors where their writ can run. The upshot is that while the province is not exactly rich in "heritage and interpretative" centres, provision is unbalanced and some long-standing Ulster assets are ignored. (It remains very difficult, for example, to find a public slipway giving a boat owner easy access to the tidal waters of the 18-mile long Strangford Lough.)

With an 80 per cent increase in inquiries this year compared with 1992, the NITB is forecasting an all-time high of 1.5m visitors against last year's total of 1.265m - which itself was a 6 per cent increase on

1991. These figures include business visitors and what the trade calls VFR (visiting friends and relatives) traffic, with the number of purely discretionary "real" holidaymakers in the minority. In this category, visitors from both Britain and the Republic declined by 7 and 17 per cent respectively last year.

Ulster's tourist trade pales into insignificance beside that of competing regions. Its estimated tourism earnings of £182m last year accounted for just 2 per cent of Ulster's gdp. Scotland's accounted for 9 per cent of regional gdp against an estimated overall figure of 5 per cent for Great Britain. The Republic's tourist industry contributed 7 per cent to the Irish gdp.

If its image were not such a depressant, on a *pro rata* basis Northern Ireland could reasonably expect more than 5m visitors a year. If there is little recovery in the numbers of visitors originating from or passing through the Republic of Ireland this year, the Northern Ireland Office should take some of the blame. In an astonishing display of what some tourist interests call

witlessness, the Northern Ireland Office began running a series of chilling commercials on Ulster Television, featuring make-believe terrorist murders (ironically, filmed in Scotland), in the hope of persuading more Ulster people to become police informers by means of the confidential recording telephones. "Don't suffer it. Change it", ran the punchline.

Transmission began just as the NITB launched its most ambitious high-season TV advertising campaign yet: two hand-some commercials transmitted throughout the Republic of Ireland and Scotland. But the terrorism commercials - designed purely for Northern Ireland consumption - would have been received and viewed by millions in the larger, more populous part of the Republic. The deterrent effect on intending visitors can only be imagined.

It may not have been quite as bad, however, as the effect of this year's appalling summer. "Trade from the Republic is particularly susceptible to the weather. We have reports of people booking and not showing up, or leaving early because of constant rain," says Hugh O'Neill.

As Mr Geoff Hill, travel editor of the *Newsletter*, a Northern Ireland morning paper, wrote recently: "Booking an Ulster summer holiday has always been like looking for a job in the tourist board. 'Wimps' need not apply."

Tim Coone finds optimism in Ulster's second city

## Facelift transforms Derry's ancient walls

**S**ITUATED close to Northern Ireland's border with the Irish Republic, Derry has historically been associated with the "troubles".

But a new mood of optimism has swept the city in recent years, as politicians, businessmen and community leaders have succeeded in putting their religious differences aside to rebuild what is now evolving into a new provincial capital serving communities on both sides of the border.

A new, privately-financed \$60m shopping and office complex is emerging from the city's old docks. Downstream, along the river Foyle, contractors are putting the finishing touches to the city's new port.

Tourists are finding attractions in new museums, a craft village and the facelift carried out on Derry's city's 17th century walls, while locals take encouragement from a new factory that is being built by Seagate, the US computer disk drive manufacturer, which is investing \$45m in a new wafer fabrication plant in the city to supply the European market. The Seagate plant will provide some 500 urgently-needed jobs for the 8,500 currently in Derry's dole queues.

It is a far cry from the darkest inward-looking days of the early 1970s, when the civil rights movement was bludgeoned from the streets. Bloody Sunday turned the Catholic community against the British army, and an IRA bombing campaign laid waste to the city centre.

Northern Ireland's second city - Londonderry on the maps, but known as Derry to most of its locals - has under-

gone a transformation as a result of a concerted effort by the Northern Ireland Office to improve the city's roads and infrastructure and to improve housing standards, and by the initiative of locals such as Mr Paddy Doherty, the chairman of the Inner City Trust, who has been a key figure behind the renovation of the city centre.

Equally important have been the efforts of Mr John Hume of the SDLP, the local MP, who has rallied the local business community - Protestant and Catholic - to go on trade delegations together to woo US investors and bargain in Brussels for a share of EC structural funds.

Mr Michael Black, the president of the Derry Chamber of Commerce, says: "The city is on the up. There is tremendous confidence and optimism in the business community here. People have stopped griping and are going out to find business. Everybody is now working in the same direction."

The city itself has a population of just 80,000, but its potential economic catchment area embraces the population of the county of Donegal in the Republic, and even parts of Sligo. This adds a further 150,000 people and makes retail developments a particularly

attractive proposition, particularly since the removal of customs posts at the border since the beginning of the year, under the new EC Single Market regime. Marks and Spencer is to be the anchor tenant in the new Foyle-side shopping complex, once it is completed

'We look at ourselves as North West plc with a development strategy'

in early 1995.

Mr Damian McAteer, an executive at the EC-funded Business Innovation Centre in the city, says: "Retail-led development has to be welcomed for the jobs and dynamism it creates, but we have to diversify into manufacturing to create the wages that will sustain the retail sector. We have to look at ourselves as North West plc, with a coherent development strategy for the region."

Mr Paddy Doherty of the Inner City Trust sees the new developments leading to that goal. "I don't think manufacturers are going to come into a rundown place. It's got to have vitality. Our hope is that on the outskirts of the inner city regeneration and the commercial developments, we will attract industry here."

One significant development stimulating the existing local industry has been a cross-border project linking the Derry and Letterkenny chambers of commerce. Mr Don McSwiney, the project's chief executive, says:

"The people of Donegal look to Derry as their regional centre. The business community is therefore beginning to structure itself on a regional basis. We are bringing sectoral groups together from both sides of the border to encourage them to work together in purchasing and marketing to learn from each other's experiences and to stop being inward-looking and to look to Europe as a market."

Working groups are already established in the clothing, textiles, food, drink, information technology, telecommunications, crafts and legal services sectors. Other initiatives are linking up local businessmen with the US market.

Mr Ian Young, a board member of North West International (formerly Boston-Derry Ventures) is a Protestant, owner of a local electrical engineering firm. He said that the business community in Derry have found they can do business better by putting aside their political and confessional differences, and as a result

have received good responses in the US and in Brussels to their trade missions and lobbying.

Mr Black, who is also on the board, said "We are selling the city as a place for US investment".

The results are beginning to show. Dupont has been in the city for the past 30 years, but Fruit of the Loom, the US clothing manufacturer, is completing a yarn spinning plant in Derry to supply its garments plant across the border at Buncrana, while Seagate began work on its new facility just six months ago. Earlier this year Mr Michael Rearty, the president of the US-Ireland chamber of commerce and vice-president of Anheuser Busch (brewer of Budweiser lager) said the new investment were "a powerful indicator of the very bright horizons that lie ahead for the city".

Bringing these horizons even closer are the £22m investment in the new port for Derry, which will handle ships up to 30,000dwt and which has been located alongside a zone earmarked for industrial expansion; and the £3m recently spent in upgrading the nearby Eglinton airport to accommodate aircraft up to Boeing 737 size. New passenger services to Dublin and London are expected to be opened in 1994.

Twenty years ago, it was Derry's historical and geographical problem to have had the Irish border drawn so near to its city limits. Imagination, foresight and political courage have since turned that problem to the city's advantage. For many people in the north-west corner of the island, the border is no longer the barrier it once was.

Profile: James Molyneux

## Back seat figurehead

**A**S leader of Northern Ireland's largest political party, the Ulster Unionists (UUP), Mr James Molyneux is the figurehead of traditional, mainstream Unionist politics and values in the province.

His is the distilled voice of a majority Protestant population which, down the years, has had to face the gradual erosion of its privileged status in holding the reins of Ulster's political and economic power.

The provincial government at Stormont was dissolved in 1972, replaced by direct rule from Westminster. And then in 1985, for the first time, the Anglo-Irish agreement gave the Irish Republic a consultative role in any future constitutional arrangements for the province.

Reaction to those changes has pushed Unionism in a number of different directions. Devolutionists, integrationists, power-sharers and even pro-"independentists" have all sought to push the UUP into their chosen path.

It is Mr Molyneux's claim to achievement that he has held the party together through these internal struggles - despite the radical shift of one trend of Unionism into the hard-line DUP, another trend into paramilitary activities, and the loss of voters to the confessionally-neutral Alliance party and, more recently, the Conservatives.

Elected to Westminster for the South Antrim constituency in 1970, where he had been constituency secretary to his predecessor, Mr Molyneux assumed leadership of the parliamentary party in 1974, and went on to be elected party leader in 1979. He is a leading exponent of the "integrationist" line of Unionist politics: his principal political goal is to improve and democratise direct rule from Westminster -



Molyneux: distilled voice of a majority Protestant population

the political arena in which he feels most at ease - rather than argue the case for devolution.

Arthur Aughey, an academic and writer on Unionist politics, says: "Molyneux has always been a Westminster man and is well respected for his honesty and integrity and his competence at the parliamentary game. His way of defending the Union was the undemonstrative, the quiet and patient cultivation of sympathy behind the scenes."

But Mr Molyneux's faith in his ability to sway Westminster politicians came unstuck in 1985 when Mrs Margaret Thatcher, the former British prime minister, signed the Anglo-Irish agreement with the Republic.

More recently, his party's support for John Major's government at Westminster during two crucial and closely-contested votes, on pit closures and on the Maastricht Treaty, brought accusations of a behind-the-scenes deal - but to date it has brought no tangible benefits for the UUP. Government ministers have insisted that no concessions have been offered or will be made in exchange for the UUP support. A shy, almost reclusive figure, Mr Molyneux frequently

avoids the spotlight, leaving public statements on party policy to his deputy leader, Mr Ken Maginnis. During the series of "round-table" inter-party talks on Northern Ireland during 1991 and 1992, which broke up without agreement, participants say he often took a back seat, sitting silently and leaving much of the negotiation and argument to Mr Maginnis.

When one round of the talks took the historic step of moving to Dublin in 1992, Mr Molyneux was notable for his absence from the UUP delegation.

Now 73 years of age, he has been criticised for failing to move the narrowly-focused mainstream of Unionist politics into the era of European union. He has also been accused of failure to seize opportunities and initiatives to achieve a breakthrough in the political logjam that has characterised Northern Ireland for the past two decades.

Such a breakthrough could only happen with the initiative and support of the UUP, the majority party. But Mr Molyneux seems content to leave that crowning achievement out of his political memoirs.

Tim Coone

Profile: John Hume

## Convinced that the border will be irrelevant



Hume: 'the problem is about people, not territory'

**T**HERE is an infectious optimism about Mr John Hume, the leader and founding member of the Social Democratic Labour Party (SDLP), that sheds a few rays of light on the otherwise impenetrable gloom that has come to characterise Northern Ireland politics.

He is convinced that nationalism, be it Catholic or Protestant-orientated, will gradually dissipate in the new European union that is being forged in Brussels. This conviction is the driving force behind his vision for new political structures in Northern Ireland which, he believes, will eventually transcend the border on the island of Ireland and make it irrelevant.

Mr Hume says: "What we are facing is an absolute reality that the world is a smaller

place. In terms of technology, transport and communications. It is natural that that change should be reflected in political institutions. Once upon a time we had city-states. Then we moved to nation-states and now we are moving to a continental one. It is a natural evolution. We are living in a post-nationalist world."

Not a man to be balked by criticism of his ideas or his tactics

Is he not discouraged by the recent chaos in the ERM and the setbacks to monetary union? "It simply reinforces my view that the logic of a single market is a single currency," he replies.

John Hume cut his political teeth in the civil rights movement in Londonderry in the late 1960s, when he sat in front of British armoured cars and mediated between crowds of rock-throwing youths and army officers, was drenched by water cannons and arrested for his efforts. He went on to become a founding member of the SDLP in 1970 - "to redefine nationalism," in his own words.

"The problem is about people, not territory - it is the people that are divided, not the territory. We have to find the mechanisms for uniting people.

Only when people start working together, spilling sweat and not blood, will the old prejudices disappear. There is no other way of solving the problem."

One of his abiding memories is as a 10-year-old watching an Orange Order march in Derry, when his father, unemployed at the time, placed a hand on his shoulder and said: "Just remember, John, you can't eat flags."

John Hume says he was strongly influenced by the non-violent preachings for change advocated by Martin Luther King in the US, and by the whole process of the creation of the European Community.

He has been in talks with Mr Gerry Adams, the leader of Sinn Féin, since last April, with a view to bringing about a permanent ceasefire between the IRA and the Loyalist paramilitaries in the province.

Mr Hume is not one to be balked by criticism of his ideas or his tactics. "I am criticised for my approaches, but nobody else is putting any new proposals on the table. I want to see an agreed Ireland, not a united Ireland. I want a new Ireland in a new Europe. I am more confident now about the future than I have been for the past 20 years. In 10 to 20 years more there will be a whole new ball game."

Tim Coone

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## TECHNOLOGY

Stephen Wisenthal looks at the revolutionary scientific and industrial possibilities of micromachining

## Small wonders, big realities

Imagine a lightbulb that is thinner than a human hair or a weighing scale so sensitive it can weigh a single cell. Thanks to a marriage of scientific ingenuity with techniques developed for the microchip industry, these and other small wonders are becoming reality.

Micromachining, an industry which only started 10 years ago, is growing quickly. The tiny devices – often smaller than the dot on an "i" – can be used in all sorts of applications.

The idea of micromachines conjures up images of minute motors and pumps, but practical versions are years from reality. Many of the applications are medical, such as blood pressure monitors which fit on the end of catheters, or tiny scissors for microsurgery.

Researchers predict that an implantable device which senses blood sugar levels and dispenses insulin will soon be developed for the treatment of diabetes.

Despite their intricacy, micromachines can be produced at low cost in large numbers. This is because much of the expense is taken up with design. So the more that are manufactured, the cheaper they are.

The fabricating techniques developed for the microelectronics industry have given the makers of micromachines a head start. "If the integrated circuit industry wasn't there, there is a whole lot of equipment that would have had to be designed that would have cost millions," says Gordon Guild, president of the Micromachining Technology Centre, set up to develop and market devices pioneered at Simon Fraser University's Institute for Micromachining and Microfabrication Research in Vancouver, Canada.

The two-micron (millionth of a metre) technology formerly used to manufacture microchips is more than adequate for micromachining. (The latest microprocessor chips use resolutions of less than one micron.) Thus research facilities have picked up very workable equipment cheaply.

To date, the commercial applications of micromachining, including pressure sensors and other comparatively simple measuring devices, have been more prosaic than the visions of some researchers.

Many potential applications are not "machines" at all but small-scale structures such as membranes, valves or micro-lenses made with micromachining techniques.

By far the largest existing market for micromachines is the automotive industry. This includes a wide range of functions from the accelerometers which trigger airbags to the pressure sensors in emission control systems. Micromachining is seen as a critical future technology for vehicle makers, says Jay Jackson, a vice-president at Ford Micro-electronics.

Ford has demonstrated its commitment by moving a large number of engineers to Colorado Springs, where it has set up a micromachining centre. The fuel injector nozzles Ford recently started manufacturing there illustrate some of the advantages of micromachining.

Nozzles made by other manufacturers use an electronic discharge technique to drill small holes in stainless steel. The holes Ford is producing in silicon with micromachining techniques are very uniform, which means the company's fuel injectors are more precise, says Jackson.

The automotive industry will continue to use increasing numbers of microprocessors for engine control, transmission control and features such as active suspension. But the next generation of micromachines will revolutionise other areas.

Many of these devices will start to see the commercial exploitation of surface micromachining (see story below). Often they will be smaller versions of existing devices. For example, some breath alcohol sensors require that an alcohol-sensitive film be heated up to 400°C, for a chemical reaction to occur.

With micromachining, the surface on which the film sits and the heating apparatus can be made very small, but the chemical process and

operation of the device remain fundamentally the same.

The chemical industry is interested in micromachining to produce process control devices such as gas flow sensors and gas composition sensors, scattered in large numbers throughout a chemical plant.

The medical possibilities have attracted the interest of pharmaceutical companies, which have visions of specialised drug delivery systems and entirely new treatments. Ash Parameswaran, a professor at the Vancouver Institute has developed a weighing device with a tiny arm, so sensitive it will measure the mass of a single cell. He has also

developed a light element a few microns across, now being made in the US.

Arrays of everything from micro-pumps to micro-sensors are expected to be common applications of the technology. One device, developed by Texas Instruments, uses more than 300,000 rotatable aluminium micro-mirrors to produce a bright colour-video display.

Parameswaran says no other technology has grown so quickly. In the early 1980s micromachining did not exist; by the end of the decade, up to 700 papers were being presented at each conference on the topic.

And used as a mould for a metal such as nickel. The use of metals rather than silicon to achieve greater strength or durability is also being applied to surface micromachining.

A set of techniques, developed in Japan, uses micro drills, spark erosion devices and tiny diamond lathes, which require each device to be made individually.

But Linton Salmon, director of the solid state and microstructure programme at the US National Science Foundation, says that by making single devices the Japanese will lose the economies of scale which come with making hundreds of devices on a silicon wafer.

SW

## Design in a micro world

to make most microchips.

It should allow the same bit of silicon to hold the sensor or actuator and the control circuitry, enhancing reliability and cutting the cost of devices.

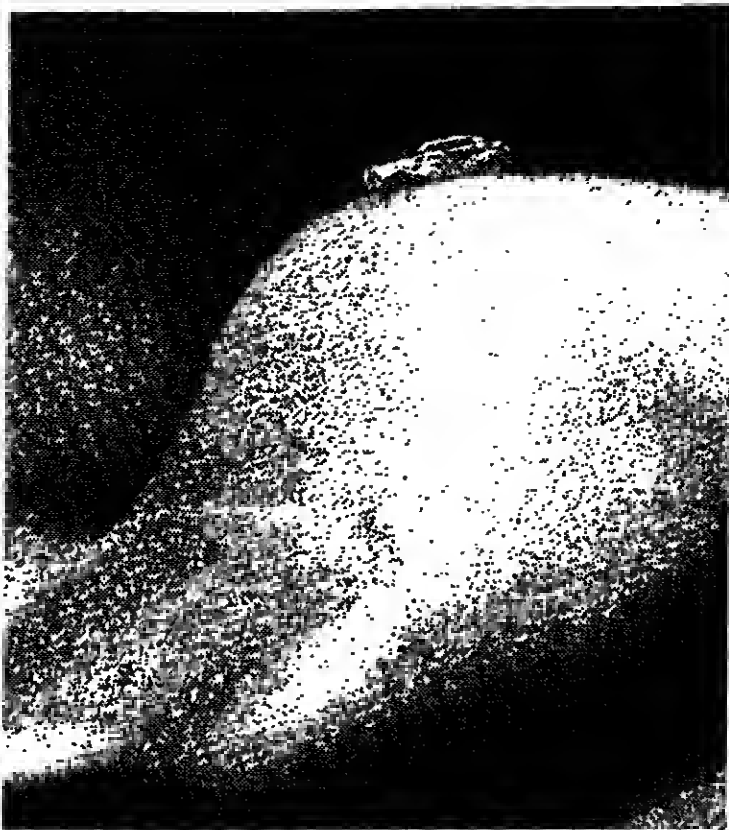
Much of this is still at the laboratory stage. Commercial devices using surface micromachining are starting to appear, but Frank says sensors and controls on the same chip will not be made in large numbers until the end of the decade.

Problems include the heat or etchants used for processing the sensor ruining the integrated

circuit, or vice versa. Also, the layers of material used in micromachining are much thicker than those used for microcircuitry.

Thickness is important for microgears and motors – the thicker they are, the more torque is possible. A technique developed in Germany called LIGA (lithography, electroforming and moulding) allows shapes like gears to be made thicker than is possible with surface micromachining.

LIGA uses high energy X-rays which penetrate hundreds of microns into a layer of polymer. The polymer is then etched away



Thumb up: the tiny micromachining devices are finding homes throughout industry

## Just the ticket for parking offenders

Graham Clayton on a computer system to ease congestion

Almost unnoticed, a roadside revolution is taking place in London as new computer systems are installed to simplify parking control and to clamp down on offenders. With parking a growing worldwide problem, the developments in the capital are attracting keen interest.

Over the years, an awkward system has developed in London. In areas of "controlled" parking – yellow lines, meter bays, pay-and-display and residents' areas – the police used to authorise all clamping and towing away.

In June, this authority was handed over to traffic wardens, who always presided over yellow-line infringements. In addition, parking attendants – under the control of the local authorities – cover infringements in meter bays, pay-and-display parking and residents' areas.

By the middle of next year this will change further. Following the 1991 Road Traffic Act most parking control in the capital will be handed over to the 33 local authorities including the City of London.

The impact of the change on each local authority depends on the amount of controlled parking. Wandsworth, with very little, has implemented most of the changes on a trial basis.

Westminster, which has just over eight square miles of controlled parking, is taking the opportunity to introduce an ambitious system with new computers and mobile data networks. Despite differences in scale, the way the parking attendants work will be the same throughout London.

Westminster is about to sign a contract for 300 hand-held computers for its attendants. At present, they write each ticket by hand, put one copy on the vehicle and, at the end of their shift, hand in a duplicate. The information is typed into a computer.

With the new system, attendants will type details of the vehicle into their hand-held computers. Printers attached to them will produce the ticket and, at the end of the shift, the data will be dumped into a central system.

Another important development is the introduction of a mobile data network so that the attendants' computers can send information instantly about a car or van which, under their new powers, they want clamped or towed away. The message can indicate the degree of urgency, especially where the vehicle is causing an obstruction.

The network can also deliver information to an attendant's computer so that the typing in of a registration number could warn that the vehicle's owner has not paid previous fines. The attendant could then decide that clamping was suitable to ensure payment and open the way for discussions about the previous fines.

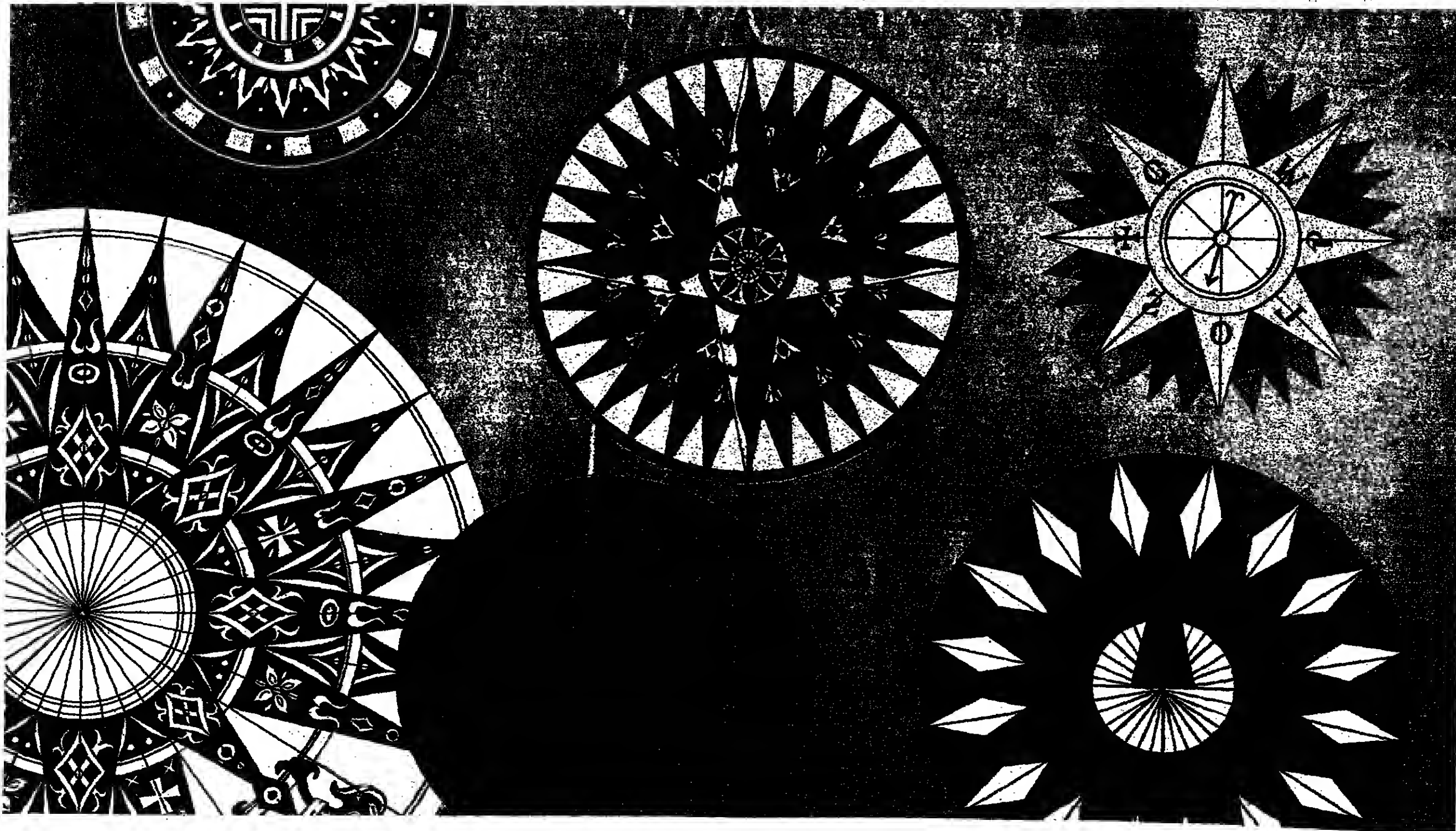
The heart of Westminster's approach is a central computer system, replacing the separate ones used for handling parking attendants' data, ticket processing, permits and meter maintenance. The system will provide a prioritised list to the despatchers who send out the clamping vans and removal trucks. In the cabs, details of offending vehicles will appear on screens and crews will be able to send back progress reports.

Car pounds will also be linked to the system along with a telephone help desk for distraught motorists and those seeking advice on parking.

To help motorists, there will be a "super-system" covering the capital. The Parking Committee for London, set up under the 1991 Act, will provide a number which motorists can ring when their cars have been clamped or towed away, regardless of which borough they are in. For this, it will have a computer system constantly updated by the 33 local systems. It will also be able to send data back to them to ensure, for example, that databases of persistent offenders are kept up to date.

The contract for this system is due to be signed in November. Bidders are likely to include groups like EDS Scicon of the US, which has experience of similar operations in Chicago and Spain, and smaller companies like Computer Parking Services of the UK.

For drivers who feel they are suffering from high-tech harassment, the Parking Committee will run an adjudication service. So they should at least find it easy to complain.



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Cinema / Nigel Andrews

## Firm grip of Hollywood

**W**HEN a black street urchin does a series of impromptu somersaults on a sidewalk in Memphis, Tennessee, the hero (Tom Cruise) does a matching somersault alongside him. This majestically daft moment comes in *The Firm*, a tale of corrupt lawyers who do laundry work - and we are not talking of shirts and underclothes - for the Mafia. Master Cruise plays the initially bushy-tailed, obedient trainee who finally exposes the rotters after 2½ hours, several murders, his wife's walkout and enough chases to save you for the year.

We are not spoiling surprises for you. In this airport bestseller turned multi-million-dollar movie, who could doubt that Cruise will triumph, any more than we doubted that he would jump up and pour moral cleansing fluid all over Colonel Jack Nicholson at the end of *A Few Good Men*. Cruise's role in modern Hollywood is that of a jack-in-the-box Mr Clean. When Cruise somersaults in a street during a film, it is not for the hell of

**THE FIRM (115)**  
Sydney Pollack  
**ANCHORESS (12)**  
Chris Newby  
**A PLACE IN THE WORLD (12)**  
Adolpho Aristarain  
**THE LIE (15)**  
François Margolin

It. He is acting out his own coat-of-arms as a modern superstar: a rampant boy-reformer leaping over the corruptly couchant body of corporate/military/legal America.

*The Firm* is ludicrous but enjoyable. We spent 150 minutes of Hollywood delirium from the first thumping chords of Dave Grusin's piano score over a lateral tracking-shot along Memphis' skyline. The French film already plays like *The French Connection* and we have not yet had the credits. After that, as directed by a peak-form Sydney Pollack, it never stops or slows. Gene Hackman is the

Chief Baddie in the film Cruise joins after it wins the bidding war for his Ivy League talents and Hackman's high-class slime provides the trickle-down histrionics allowing supporting players to snarl and smote with élan.

We have Hal Holbrook as the firm's white-haired patriarch: Ed Harris as the no-haired FBI sleuth, his pate as dazzling as an interrogation lamp; Jeanne Tripplehorn as Cruise's pretty redheaded wife; and Holly Hunter as the friendly detective-agency moll with the rinky-dink voice and the explosion of platinum curls. As is appropriate in a story of the good and evil things that issue from people's heads, in this film by their hair ye shall know them.

What pleases is the movie's impudent predictability. The "surprises" are ripples in a sea of see-it-coming. How will Cruise escape from an office full of men who want to kill him? (We just know that he will). What plot twist will return Miss Tripplehorn to Cruise's arms? (We just know that something will). As for the final ingenious gambit by which Cruise gets

the baddies without compromising his code of honour as a lawyer, that could be second-guessed by mentally rifling through gangster history.

*The Anchoress* is the kind of film the British Film Institute Production Board gives us when it fears we are consuming too much junk food like *The Firm*. In 14th century England an illiterate peasant girl (Natalie Morse) declines to marry the local reeve and attracts the attention of the village priest, talent-scouting for anchorites. Soon she has been immured for life inside a church wall, there to commune with God and to eat the scraps of food pushed through a hole by her understandably distressed mother.

The film looks like Tarkovsky and plays like Mummy Python. Director Chris Newby has an eye touched by divine grace. Marvel at those filtered darkened skyscapes, those rhythmic shimmering corn with fluttering birding or falling hair, those elastic contrasts between long shot (silhouette procession on skyline) and close-ups (giant locust, giant eye).

But Newby's ear is a different matter. Or perhaps the script by Judith Stanley-Smith and Christine Watkins was delivered as a fait accompli and he had no veto over lines like "Don't you go 'anging around those back fields, my girl'".

■ ■ ■

*BEING 12* is tough enough without having to deal with the added distraction of living in a police state, especially when your parents are radical agitators who have been banished to the wilderness, writes Steven Amador. Writer-director Adolpho Aristarain's *A Place in the World* is one of a host of Argentinian films dealing with that country's troubled recent past, though this one grounds itself more firmly in reality than most by employing a heartfelt coming of age story to make its political points.

Ernesto (Gaston Baty) is a serious child whose parents are trying to fight the good fight in the backwater to which they have been exiled. Aristarain's plot concerns a hazy defined struggle between farmers and a hydroelectric company which quickly becomes a familiar tale of greedy bastards versus salt-of-the-earth folk. The film distinguishes itself in its meticulous attention to character, not



Dangerous embrace: Didier Sandre and Nathalie Baye in *The Lie*

just Ernesto's proud family but also a troubled nun and a cynical geologist. And while the story's leisurely pace and occasional moral worthiness may alienate some, it remains one of the more accessible of recent portraits of South America.

The deception at the heart of *The Lie* is a deadly one. François Margolin's first feature concerns a seemingly happy French couple whose life is torn apart by the HIV virus. Emma (Nathalie Baye) appears to have everything - a good job as an arts writer, a cute eight year old son and a dashing, foreign correspondent partner. When she suspects that she is pregnant she goes for a test, only to learn she is HIV positive. Knowing that she could only have contracted the virus from her partner, her horror turns to anger as she investigates his life, learning that he has been doing more corresponding than his job requires, particularly at gay bars.

Heterosexual Aids is a bold, timely subject, yet just because Margolin tries to tackle big topics does not mean he gets a grip on them. Having assembled a promising group of characters and some combustible dramatic material, he fails to set it all ablaze. In the end, it is hard to tell whether this is a cautionary tale or simply melodrama hiding behind immunology. In spite of some perceptive moments and a steady performance by Baye, *The Lie* poses more questions than it has the power to resolve, that introduces more dilemmas than it has the sagacity to define.

Theatre / Malcolm Rutherford

## Farewell, maybe

**H**AROLD Pinter's first full-length play since *Betrayal* in 1978 turns out to be slightly longer than advertised - nearer 85 minutes than 75 without an interval. It also looks as if it is intended to be his last, for *Moonlight* is full of references to the dying of the light without quite the rage that Dylan Thomas advised should go with it.

There are a few moans to be sure, but for the most part it seems that Pinter is happy to go gently, leaving his record to be judged as people think fit.

An old man (Ian Holm) lies on his death bed. His wife (Anna Massey) is in attendance. Three grown up children, two boys and one girl, are at various times on the stage, though never directly with their father. The grandchild, for whom he says he is waiting, does not turn up. A married couple, old acquaintances of the man and his wife, briefly do.

Nothing much happens. You would not expect it to. The effect depends on whether you think times like "It's enough to make the cat laugh", followed after the famous Pinter pause by "Do we have a cat?" are funny. Once, in early Pinter, they were. Now, I think not. And if not funny, it is hard to find another justification.

There is some reminiscing. Plainly it has not been the happiest of marriages, but it has not been the most unhappy either. The husband has had his infidelities; the wife has dabbled in lesbianism. Yet, you can hear them saying to themselves, at least they are not

quite as suburban as the couple who turn up to see them.

The sons talk to each other on a separate part of the stage. Here there may be some parody. They mention places in the south of England as other people may talk about Monte, and go through lists of names like old soldiers remembering their regiments. I am unable to elucidate further, possibly it is the end of old England.

Images of death abound: not only Dylan Thomas, but also *The Journey of the Magi* and Shakespeare. "Take him all in all," says one of the sons of his father, "I shall not look upon his like again." There is a generous toast to those who have not made it this far. "To all those we left behind, to all those who fell at the first and all consequent battles." Only Prospero is missing.

Yet if this is really Pinter's farewell, the production could have been better done. The set, designed by Bob Crowley, is strangely flat: one big bed and a smaller one almost side by side. The rear of the stage remains largely unused, save for the ghostly daughter flapping about in white. In short, there is not much life, though this may be intentional, in David Levenson's directing. And if the aim is pathos, it would surely have been better to let Pinter play the leading role. He is, after all, a very good actor, still at the height of his powers. Then the message would have been unmistakable. But perhaps he prefers to remain enigmatic to the end.

Almeida Theatre until October 30. (071) 359 4404

Proms / Richard Fairman

## Homegrown stars

**T**HERE ARE not many visiting international orchestras available to the Proms this year, but that matters less than it did. British audiences are being persuaded to accept that homegrown celebrity orchestras are in season from July to September as well.

The reception given to the City of Birmingham Symphony Orchestra clearly accorded it celebrity status, which it has won in its own way. Whereas the top Austrian and German orchestras want to play the music for which centuries of tradition have made them the world's finest exponents, British orchestras claim no exclusive territory. Their specialism is diversity itself - the music of all periods, of all nations.

Arriving a week after the Leipzig Gewandhaus, Simon Rattle and the CBSO choose their ground well. In a straight fight over the German classics they would surely lose a bloody battle. The Birmingham orchestra's sound is not as refined, its ear for balance nothing like as acute. But its two concerts had impact, as a result of the vivid clash of musical styles.

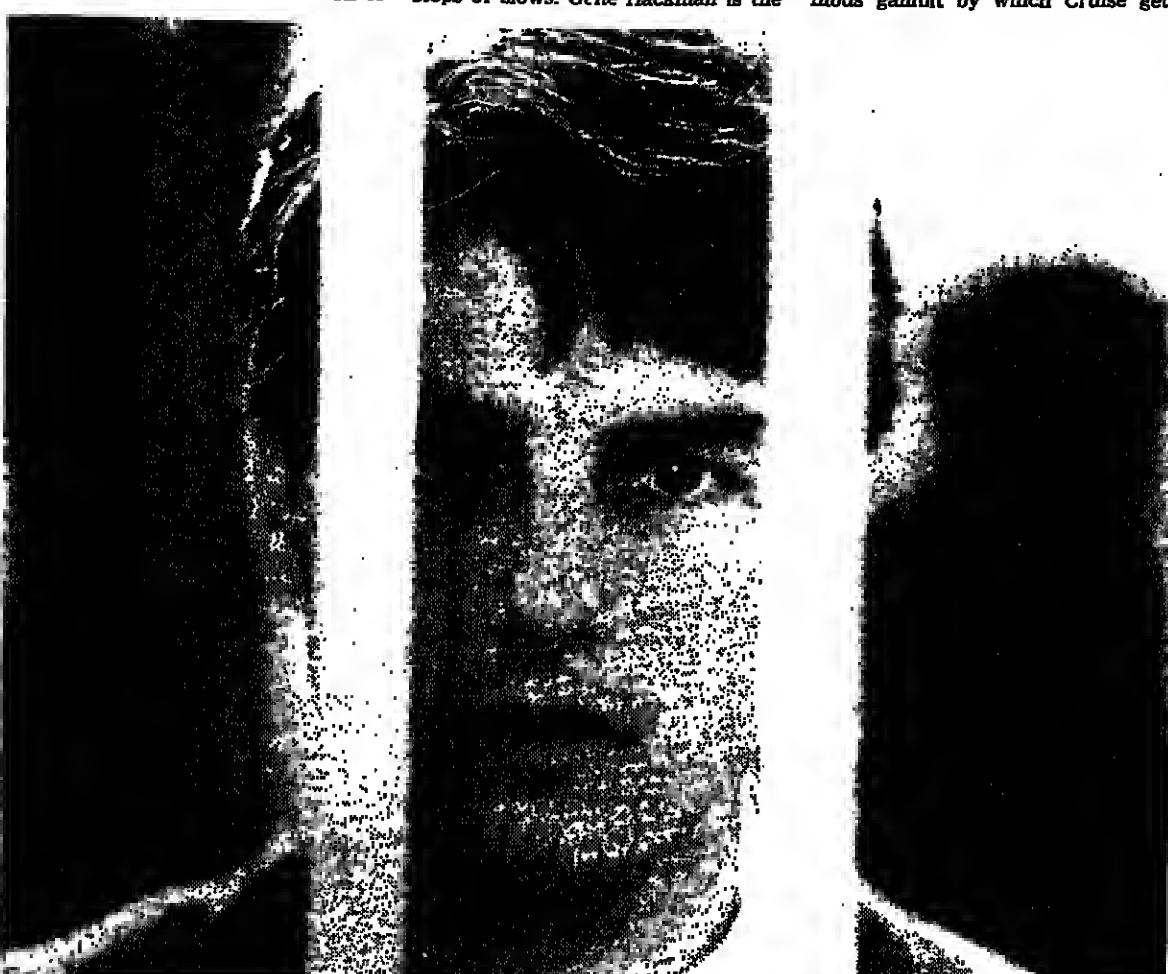
On Monday, BBC2 viewers probably tuned in to see Maurizio Pollini play Mozart's C Minor Piano Concerto, K.491. It would be interesting to know how the performance came across on television. In the hall, Pollini played inwardly, often not trying to dominate, sometimes unhelpfully obscured. One sensed that his classical integrity was being questioned by a subversive

orchestra, always trying to draw from him statements more passionate than he wanted to give.

The orchestral sound there lacked bite; surprising, when the musicians sank their teeth so incisively into Schoenberg's First Chamber Symphony and Stravinsky's *Pulcinella*. Rattle took the Stravinsky rather doggedly, but brought it closer to the vulgar Neapolitan street theatre than I have heard before. Horns that swagged, lumbering basses, a trombone that blew the rudest of raspberries - every instrument played a new character in the commedia dell'arte.

The Tuesday concert journeyed to Scandinavia, but with a couple of surprising detours, perhaps to lighten the mood. Rattle's performance of the Sibelius Violin Concerto with Ida Haendel was gloomy, on the heavy side. His account of Nielsen's Fifth Symphony was more impressive by far, summing up in its depths climaxes of formidable power.

There was no logic to including Debussy's *Prélude à l'après-midi d'un faune* and the short, plucky, sardonic *Claire de lune* by Berthold Goldschmidt; only a desire for adventure. The ominous procession that stamps across the latter leaves little doubt as to its date of composition: the 1930s, when its Jewish composer was forced to leave his native Germany. Growing interest in the music of that era means we shall soon be hearing more of Goldschmidt (90 this year, but still sprightly). Typical of Rattle to bring him to the Proms.



Cruise rampant: Tom Cruise the boy-reformer again cleans up corrupt corporate America in *The Firm*

Lucerne Festival / Andrew Clark

## Safe pleasures by the lake

**W**HATEVER else the Lucerne Festival may stand for, it does not stand for controversy. Lucerne, like Switzerland, is comfortable and consensus-minded: it could not be controversial if it tried. By avoiding staged opera, it remains above the political conflicts that regularly beset other European music festivals. By relying on a core of wealthy Swiss patrons, it has steered clear of economic uncertainty. It is a safe, low-risk formula which promises continuity, smooth organisation and emotional reserve.

Within these limits, Lucerne has something to offer. First, there is the setting: where else can you attend an Alfred Brendel performance in the morning, have lunch on a paddle steamer with views of William Tell country drifting by, explore an Alpine peak by train and return to hear the Royal Concertgebouw Orchestra? Even without the lakeside scenery, Lucerne offers a "chance to catch most of the big-name orchestras, conductors and soloists in the space of three weeks. Anyone wary of musical indigestion can always stay at home and select some of the live

concert relays on Swiss radio. But you still end up wishing you were there - as I did when I listened to the broadcast of Mikhail Pletnev's fabulous Russian National Orchestra in Tchaikovsky's Suite No. 3, and a *Pathétique* of blazing integrity from Abbado and the Berlin Philharmonic. Programmes have become spicier since Matthias Bamert took over as artistic director - slipping a new work by Heinz Holliger alongside Beethoven's performance of the Schumann concerto, or pairing Igor Oistrakh's Vivaldi with an Edison Denison premiere. This year's theme was Russia: Lucerne must be the only large festival to have accepted the obvious pairing of Tchaikovsky and Rakhmaninov (respectively the 100th and 50th anniversary of their deaths); but the chance to explore the lesser-known chamber-recital repertoire was passed up in favour of another run through familiar blockbusters.

Where the theme did pay dividends was the exposure it gave to Alfred Schnittke, Lucerne's first-ever composer-in-residence. No new work was on offer, apparently because of ill health and the symphonies were conspicuous by their absence. But 14 Schnittke works were performed, more than any other composer.

The Lucerne programmes demonstrated just how variable Schnittke's prolific output can be. Worst of all was the Second Piano Sonata (1990), a catalogue of meandering ideas, thumping clusters and splashy pianistic clichés, which suggested a composer ill-at-ease with the keyboard. Schnittke's wife Irina certainly did nothing to soften the work's embarrassing tawdriness. By contrast, the Second String Quartet (1980), played by Sweden's excellent Tale Quartet in the same programme, came across as one of Schnittke's most elegant and substantial works. Composed in

response to the sudden death of a close friend, it owes some of its tonal language to old Russian religious motifs - but the influence is fully absorbed, the musical argument seamlessly unfolded through hiatus and repose, the tragic mood captured by quiet, meditative dissonances.

This is Schnittke at his most serious and personal, expressing intense emotions through music of astonishing harmonic freedom. But where he obviously finds myself less easily persuaded. At first, his stylistic many-sidedness is hard to resist because of its sheer zest and playful imagination; with greater familiarity, it starts to sound trivial and banal.

In the Concerto Grosso No. 3 for two violins and chamber orchestra (1985), vividly brought to life by Daniel Hope and Erik Houston with the Lithuanian Chamber Orchestra, Schnittke makes a convincing case

simply through the technical dexterity with which he refracts the sound and style of a baroque concerto. There is a genuine synthesis of contrasting styles, filtered through Schnittke's own personality. The score also thrives on the brilliant conversational working of two virtuoso solo parts. But in less substantial works such as the melancholy Concerto No. 3 for violin and chamber orchestra (played by Bettina Boller and the Basle Radio Symphony Orchestra) or the over-extended Piano Concerto (Petras Gruzinskas), both dating from the late 1970s, the stylistic pickering-around is at best predictable, at worst crude.

Like most of the festival's small-scale events, the Schnittke concerts took place in one or other of Lucerne's churches and spartan halls, which offer atmosphere but poor acoustics (and the occasional overlay of hell-chiming). Lucerne needs not just a replacement for its cramped concert hall, but a decent recital hall. So the prospect of a SF194m (£88m) lakeside complex, to be opened in time for the festival's 60th anniversary in 1998, is doubly welcome.

## INTERNATIONAL ARTS GUIDE

## BARCELONA

The Monte Carlo Ballet gives six performances of a programme of Ballets Russes choreographies, opening next Tues at Gran Teatre del Liceu. The first opera production of the season is *Der fliegende Holländer*, opening October 2 (412 3532).  
● Information and booking for cultural events available through Caixa Catalunya from 08.00 to 14.00 (310 1212).

## BOLOGNA

The 1993-4 season at the Teatro Comunale begins on Sep 24 and 25 with a programme of Richard Strauss orchestral works conducted by Edoardo Gatti. The first opera production is *Puccini's Trilitta*, opening Nov 27 (Biglietteria, Ente Autonomo Teatro Comunale di Bologna, Largo Respighi 1, 40126 Bologna. No telephone bookings accepted. For information, call 051-529999).

## FLORENCE

Teatro Comunale Myung-Whun Chung conducts a concert performance of *Der fliegende Holländer* tomorrow and Sun, with a cast led by Bernd Weik, Deborah Voigt and Ben Heppner (055-211158).

## LONDON

**THEATRE**  
● Travesties: first major revival of Tom Stoppard's award-winning comedy written in 1974. Adrian Noble directs a cast led by Antony Sher. Starts previewing tonight, Press night next Thurs (Barbican 071-638 8891).

● Wallenstein: Tim Albery has condensed Schiller's epic trilogy into a single evening for his RSC production. Now in previews, Press night next Wed (The PR 071-638 8891).

● David Hare Trilogy: a three-part examination of British institutions, written by one of Britain's leading contemporary playwrights and directed by Richard Eyre. The trilogy runs for 12 weeks in the Olivier Theatre - beginning tonight with a revival of *Murmuring Judges*, a study of the judiciary. *Racing Demon*, a play about tensions in the Church of England, joins the repertory next Tues, followed on Sep 23 by the premiere of Hare's new play about politicians - *The Absence of War*, starring John Thew. There will be opportunities to see all three plays on the same day on Oct 2, 9, 23, 30 and Nov 13, 20 (National 071-928 2252).  
● In the Summer House: British premiere of Jane Bowles' drama

about the bonds that exist between women. Derek Goldby directs a cast led by Rosemary Harris. Just opened, runs till Oct 9 (Lyric Hammersmith 081-741 2311).

● Katie Has Been Drowned: Dutch theatre ensemble The Mexican Hound presents its juicy satire on small-town morality, punctuated by unpredictable musical interludes. Opens next Tues for six performances at start of British tour (Riverside Studios 081-748 3354).

● Hair: Michael Bogdanov's revival of the quintessentially 1960s musical, with a new generation of young performers. Now in previews, Press night next Tues (Old Vic 071-928 7818).

**OPERA/DANCE**  
Covent Garden: The Royal Opera opens its season on Sat with a revival of *Madama Butterfly* starring Diana Soviero and Neil Shicoff, followed next Sat by *L'italiana in Algeri* with Marilyn Horne and Ruggero Raimondi. Both are conducted by Carlo Rizzi. The first new production is *Die Meistersinger* on Oct 8 (071-240 1068).  
Coliseum: The new ENO season, the first organised by Dennis Marks and Sian Edwards, has two revivals in repertory - Simon Boccanegra with Gregory Yurisch and Janice Cairns, and Street Scene with Josephine Barstow and Lesley Garrett. The first new production is *La bohème* opening next Wed, staged by Steven Pimlott and conducted by Edwards, with Roberta Alexander as Mimì (071-836 3161).  
Queen Elizabeth Hall: David Freeman's Opera Factory production of Xenakis' *The Bacchae*, daily till Sun (071-928 8800).

Barbican: Final performances of *Travelling Opera's* lively English-language interpretations of Carmen and La bohème are tonight, tomorrow and Sat (071-638 8891).

**CONCERTS**  
Royal Albert Hall: Tonight: Yan Pascal Turtelero conducts BBC Philharmonic Orchestra in works by Debussy, Ravel, Albeniz and Lutoslawski. Tomorrow: Julian Bream and Jas Gawronski. Tomorrow: London Baroque and Choir of King's College Cambridge present choral music by Byrd, Handel and Purcell. Sat: Barry Wordsworth conducts the Last Night of the Proms, with soloists Michael Collins, Della Jones, Kathryn Stott and John Tomlinson (071-923 9898).  
South Bank Centre: Sun: Carlo Rizzi conducts Orchestra of the Royal Opera House in a Tchaikovsky programme. Mon: Matthew Best conducts Bruckner's Te Deum and Beethoven's Ninth Symphony. Sep 19: Margaret Price sings Wagner's Wesendonck Lied (071-928 8800).  
Barbican: Sun: Pinnas Zukerman directs ECO in a Mozart programme. Next Thurs: Cecilia Bartoli is soloist in a Handel and Vivaldi programme with Academy of Ancient Music (071-638 8891).

**MADRID**  
The 1993-4 season at Teatro Lirico La Zarzuela opens on Sep 18 with José Serrano's zarzuela *La canción del olvido*, staged by Pier Luigi Pizzi. The production runs daily except Mon till Oct 10. There is a guest performance of Jonathan Miller's ENO production of *Rigoletto* on Oct 18. Martha Graham Dance

Company is in residence from Oct 27 to 31, followed in Nov and Dec by a flamenco production, *Compagnie Angeline Preljocaj* and Spain's National Dance Company. The opera programme begins in Jan with *Der Freischütz* (01-429 8228).

## PRAGUE

**FESTIVAL OF MUSIC**  
In addition to the Prague Spring Festival, the Czech capital has built an autumn music festival around the distinguished violinist Josef Suk, consisting of recitals and other small-scale events. This year's festival (Sep 20-Oct 5) features a strong dose of Beethoven, Bach and Mozart, alongside familiar and less familiar Czech composers. Artists at the festival include Yo Yo Ma, Maurice André, Cecile Licad, Rudolf Buchbinder, Viktor Mullyova, Shlomo Mintz, Renato Bruson and Sándor Végh. Among the more exotic programmes is a choral concert on Sep 25 pairing Schubert's Mass in G with a Stabat Mater by late 18th century Bohemian composer Johann Baptist Vanhal. Bookings from Festival of Music Prague, Cs armady 12, 160 00 Prague (fax 02-526583) or Bohemia Ticket International, Salvatorova 6, 110 00 Prague (fax 02-231 2271).

**OTHER EVENTS**  
The Czech Philharmonic Orchestra's winter season at Dvorak Hall opens next Thurs and Fri with an unusual programme conducted by Václav Neumann, consisting of works by Karl Husa, Lutoslawski and Martinu (02-286 0111). The Prague Symphony Orchestra's new season

opens Smetana Hall on Sep 21 and 22 with a Beethoven and Mahler programme conducted by Martin Turek (02-232 2501). Prague State Opera's repertory this month includes Otello, Entführung, Tannhäuser, Les Contes d'Hoffmann and Così fan tutte (02-265353). The National Theatre has La forza del destino, The Bartered Bride, The Devil and Kate, Lucia di Lammermoor, Russia and La bohème (02-205384). There are staged performances of Mozart operas at the Estates Theatre on Sep 13, 15, 22 and 29 (02-226858).

## STRESA

The annual music festival in this north Italian lakeside town offers two piano recitals this weekend - by Lazar Berman on Sat and Pavel Nersisyan on Sun. Claudio Scimone conducts I Solisti Veneti on Mon in works by Boccherini, Tchaikovsky and Richard Strauss. In the closing concert on Sep 16, Viktoria Mullova will play Mozart's First Violin Concerto, accompanied by the Orchestre National de Lyon under Emmanuel Krivina (0323-21095).

## WARSAW

This year's Warsaw Autumn contemporary music festival (Sep 17-25) offers birthday tributes to Penderecki (80th) and Lutoslawski (80th), and includes a new work by Górecki and the first Polish performance of Messiaen's *Éclairs sur l'Au-Delà*. Alongside the leading Polish orchestras, there are visiting ensembles from Lithuania, Germany and the Netherlands (022-311634).

## ARTS GUIDE

Monday: Berlin, New York and Paris.  
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.  
Wednesday: France, Germany, Scandinavia.  
Thursday: Italy, Spain, Athens, London, Prague.  
Friday: Exhibitions Guide.

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Saturday Super Channel: Financial Times Reports 0630  
Sky News: West of Moscow 1130; 2230  
Sunday Super Channel: West of Moscow 1830  
Super Channel: Financial Times Reports 1900  
Sky News: West of Moscow 0230; 0530  
Sky News: Financial Times Reports 1330; 2030



## Two of a kind: David Marsh on former political leaders who advocate closer European integration



Is this the face that launched a thousand summit communités? Mr Giulio Andreotti, seven times Italian prime minister, sits behind his crowded desk in an elegant, ochre-coloured building near the Pantheon in Rome. He looks unusually crumpled.

Mr Andreotti, 74, who started his governmental career in 1947, is part of the backbone of Italy's postwar history - a veteran of the Christian Democrat party and of its domination of four decades of politics.

A principal architect of the Maastricht treaty, he ranks as one of the foremost Italian proponents of closer European integration. Ironically for Mr Andreotti the Europeanism which he has so long fostered provides a principal reason for the new impatience in Italy about the country's near-constant political corruption. As the Christian Democrats slide from their former pivotal position amid a tide of scandal, history is starting to catch up on him.

Murky allegations of political impropriety have dogged Mr Andreotti throughout his long career. So far, they have always been unproven. This time, however, the accusations have been mounted more energetically. He has been forced to waive his parliamentary immunity to answer charges being pressed by magistrates in Milan, Palermo and Rome. They relate to allegations of consorting with the Mafia, being responsible for the death of a journalist killed in Rome 14 years ago, and organising illicit political financing. Mr Andreotti has protested his innocence.

A mantis-like figure, clad incongruously in a blue cardigan under his smart suit, Mr Andreotti clasps a tube of nasal inhalant in his right hand, and takes frequent telephone calls with his left. Testifying to his impeccable Catholic credentials, his small office is crammed with crucifixes, giving it the appearance of a reliquary.

Speaking before the most serious charges were raised this summer, he termed the claims "perfidious manoeuvres" by political enemies.

Mr Andreotti says Italy's internal upheavals reflect the

## An architect of Maastricht edifice



Andreotti: 'I don't think we can announce Maastricht's defeat'

still greater changes in the former Soviet Union and eastern Europe. The Christian Democrats' previous supremacy, made possible by the postwar necessity of countering the Italian communist party, was part of the former stability of Europe's cold war structures. "We are seeing the long-lasting waves caused by the end of communism," he says. "The old political truths have vanished."

The ending of east-west division and the reunification of Germany spawned the Maastricht treaty, aimed at accelerating west European integration. But the Maastricht programme itself has been blunted by two years of economic and political shocks.

These shocks appear to make European union less feasible. Mr Andreotti thinks they also make it more necessary. "The fact that Europe is not yet strong enough to resolve prob-

lems like Bosnia, and the necessity to have a monetary order - these are reasons why we should multiply our efforts to find solutions."

Recalling the atmosphere in which the Treaty of Rome (which set up the European Community) was negotiated in the 1950s, he says: "We who are old can remember the suspicion towards Europe at the beginning. People said it [the EC] was not possible. But Europe has worked well."

He puts forward a particular reason for pressing on with the Maastricht treaty: to accommodate a larger Germany within a united Europe. In 1984, he won notoriety in Germany by saying he would prefer the Germans to remain divided. Now that the nation is reunited, he believes Germany will inevitably reshape its European policies in coming years.

Asked whether the next

chancellor will be less interested in European union than Mr Helmut Kohl, he replies: "Perhaps not the next one, but his successor."

Germany can no longer be relied upon to continue its postwar policy of balancing obligations and responsibilities to east and west, he says. He evokes the names of Willy Brandt, the former West German chancellor, and Hans-Dietrich Genscher, former foreign minister.

"Perhaps Germany will no longer be the Germany of Kohl nor of Genscher nor of Willy Brandt. We don't know what sort of Germany it will be. It could be a strong Germany, in an isolated and fractured Europe."

Fears that Germany's western ties will be loosened explain why Mr Andreotti has been in the vanguard of efforts to harness Germany and its D-Mark through economic and monetary union. He played an important part in halting the Euro plan agreed at Maastricht in December 1991. In a discreet eve-of-summit dinner with President François Mitterrand in a hotel in the Dutch city, Mr Andreotti formulated the timetable for introducing the Euro by 1997 or 1999. "This preparation was the result of four personal contacts, as well as work by our officials," he emphasises. "It wasn't improvised."

Mr Andreotti parries the suggestion that Germany's post-unification difficulties make this timetable unachievable. "I don't think we can now announce the defeat of Maastricht."

On the other hand, even before last month's monetary upheavals, he was resigned to the likelihood that his cherished plan would be delayed. "Kohl's fundamental idea is that monetary union should not go forward without political union. If for domestic (German) reasons, such as the additional costs of unification, we should now have a less rapid timetable, that could be agreed. Fundamentally there is no alternative but to make great efforts to realise, at the least, the spirit of Maastricht."

Accomplishing the spirit of Maastricht, rather than implementing its content, may not amount to much. But as Mr Andreotti contemplates his crucifixes, reviews his options, and faces his enemies, it represents one last straw to clutch.



Mr Helmut Schmidt, the Social Democrat chancellor of West Germany from 1974 to 1976, is wealthy, and worried.

Wealthy because several best-selling books on German and international politics have brought a considerable income since he left office. His latest, on the travails of unified Germany, has sold about 100,000 copies since spring - but will earn him, he says, less than the originally expected DM1m because recession has damped demand. He is using the funds to help set up a foundation with other well-known Germans to help his country come to terms with reunification - a phenomenon most Germans (he included) thought they would never witness.

Worried, because so much in Germany seems to be going awry. He concedes however, that he sometimes exaggerates his fears of German instability. In his book, he describes how earlier this year he dreamt that the Nazis had returned to power, closing the heavy-weight newspaper Die Zeit, of which he is co-publisher.

"Maybe I shouldn't have written this," admits Mr Schmidt, framed against encyclopaedia-lined shelves in his Hamburg editorial office. "I put it in to show how deep my concern is. I don't really think the Nazis will take over."

He says the break-up of the blocs of east and west has made not just Germany but all Europe more brittle.

The new uncertainties have increased his support for European integration. "I want Germany to be part of a greater Community. It is in Germany's self-interest to bind itself in." But they also appear to have made this goal more difficult. The man who, along with French president Valéry Giscard d'Estaing, launched the European Monetary System in 1979 says last month's forced widening of the system's fluctuation bands has "decreased the chances" of economic and monetary union by 2000.

"I am rather sceptical. None of the governments - neither London, nor Paris, nor Bonn - understands the importance of monetary union." Unless the D-Mark is replaced by a single European currency, the Ger-

## Regretful note over unity's path



Schmidt: 'I want Germany to be part of a greater Community'

man currency will one day be "overwhelmingly strong". This would eventually make the Germans the "masters" of the European Community - a position which, he says, would rebound on Germany by making it vulnerable to "coalitions" of European states formed to curb its strength.

He expounds his well-known complaint that the Bundesbank is blocking progress on the Euro. "Under monetary union, it would become just another affiliate of the European central bank. I can understand why it dislikes this." He says, however, "not only the Bundesbank is damaging the process. It is the unwillingness of the French and German governments to adjust the D-Mark/French franc EMS parity earlier in the spring or summer."

A second effect of the uncertainties has been to increase

Mr Schmidt's popularity with the German electorate. Support for both Chancellor Helmut Kohl and the Social Democratic leadership - for which Mr Schmidt has no great regard - is at a low ebb, increasing his appeal as an elder statesman. Earlier this year, Mr Schmidt says he was "besieged" with letters from

German s entreaties him to stand for the chancellorship. His secretaries sent off replies, pointing out he is 74. The letters have now stopped.

Mr Schmidt, in poor health, knows he will not make a comeback. He says a possible outcome of next year's general election will be a grand coalition between Mr Kohl's Christian Democrats and the SPD.

Despite his health problems, his capacity for work remains formidable. It took him five weeks to write his latest book, during a holiday last winter on the Canary Islands. For relax-

ation, he organises meetings of former international leaders, who exhibit collective anguish at their successors' failure to solve world problems.

One of the biggest headaches is Germany. For all Mr Schmidt's fears of eventual German dominance, his preoccupation at the moment is the lengthy period Germany needs to cope with its challenges.

"In economic terms, unification will in the main be successful within 15 to 20 years... Coming to terms with our national identity - trying to get the same answer to the question 'What does it mean to be a German?' from a man in Dresden and a man from Aix-la-Chapelle [Aachen] - will take longer, maybe 40 years."

Although his notorious irascibility seems to have softened, he still dispenses liberal doses of vitriol. Despite his support for monetary union, he calls the Maastricht treaty "monstrous". "There are far too many things in one document. If you just wanted monetary union, you could have done it in 10 or 12 pages."

He says shortcomings in German politics are partly the result of television. "On the news, politicians provide platitudes, not deep arguments. These are politicians who could also have chosen a career presenting talk-shows."

Relations between Mr Schmidt and his successor are icy: Mr Kohl, he says, "has avoided asking for my counsel". While Mr Kohl "deluded himself" about the realities of unification, Mr Schmidt says he would have raised taxes immediately in 1990 to help finance the unification-induced rise in public spending.

What verdict will history offer on Mr Kohl? Mr Schmidt's reply is balanced. "He's been a successful politician so far. He grasped the chance [for unity] offered by [Mr Mikhail] Gorbachev's domestic situation. After that, he's not been convincing in the economic field. However, it is questionable whether any one else at the top level of political class in either party would have done better."

This seems to express both his low opinion of contemporary German politicians and a winsome disappointment that, when the hell of German unity rang out three years ago, a certain Helmut Schmidt was not 10 years younger. His disappointment seems unlikely to wither with age.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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### 'Silliness' of radiation proviso

From Mrs Ann Barrett.

Sir, On reading that Nuclear Electric had applied for authorisation for radioactive discharges from Sizewell B ("Talks on Sizewell application", August 13) and being worried for my children's future, I wrote to the National Radiological Protection Board for reassurance that the lower annual radiation dose limits which it had recommended in 1987 would be enforced. Its reply advised me that its role is "advisory rather than regulatory" and that it is up to the "authorising departments" and the Health and Safety Executive to ensure discharges and doses are "within the appropriate limits". The NRPB also enclosed a memorandum on potential Thorp discharges. Reading this lengthy document, I came to this statement: "It was assumed that infants and children spend 90 per cent of the time indoors." I read no further.

To me, the silliness of this statement rivalled that of the Health and Safety Executive/UK Atomic Energy Authority's in their publication of January 1988, *The Tolerability of Risk from Nuclear Power Stations* (HMSO 212). This told us that if there was a Chernobyl-scale accident "in this country, 'no one will die,' people would merely 'suffer some degree of life-shortening'."

Ann Barrett, 9 Hartington Grove, Cambridge CB1 4UB

### Science a bleak career prospect

From Mr Brian Lewis.

Sir, I am able to manage but one wry smile at the pious hope for the future of chemistry expressed by John Cox, director general of the Chemical Industries Association (Letters, August 28/29). Like the rest of us science graduates, one must suspect that most directors of the CIA are there because they, too, were not really wanted by their industrial employers.

The fact is that many managers with science degrees from such UK companies as ICI, BP or Shell have had their careers curtailed unexpectedly early

over the last 20 years (starting about 1973) and have been encouraged to work overseas for foreign competitors.

Perhaps Mr Cox would tell us how many employees with science degrees in the British chemical industry have been retired early or made redundant since 1973. One would wager it to be a significant proportion of total UK private industry science manpower! It is hardly surprising that the children of the scientifically qualified do not see much future in science and seek greener pastures elsewhere, even if we might all agree (but

only in theory) that it is impossible to run a country as technically sophisticated as the UK without managers strongly grounded in science.

Surely the message of the last 20 years is that jobs in banking, foreign exchange, investment management, property development, restaurants and politics (anything but science-based industry) pay much better than any job in science. Is Mr Cox surprised at our intelligent children noticing? Brian Lewis, PO Box 5101, Riyadh 11422, Saudi Arabia

### Warnings suppressed by the Politically Correct

From Mr Theo Theocharis.

Sir, In Bronwen Maddox's article, "Greens' bogus science" (September 6), she correctly remarks that the distortion of the scientific method by certain green organisations "destroys any notion of proof" and can therefore "cause legal mayhem".

This is merely a special case of a deeper and wider malaise. Six years ago, also in connection with the perennial public mistrust of science, a colleague and I published an article entitled "Where Science Has Gone Wrong" in *Nature* (Vol. 328, pp. 595-8, October 15 1987), in which we explained that the currently taught philosophies of science are epistemologically flawed and socially dangerous. These philosophies reject completely the concepts of scientific objectivity, proof, truth and certainty. These philosophies have therefore been embraced with enthusiasm by all Politically Correct movements which think that objectivity, etc. is the invention of

first world science so that its multinational companies can exploit and oppress the Third World, the minorities and the environment.

Regrettably, our 1987 warnings were suppressed by the Politically Correct, and overlooked by the Politically Incorrect, to the further detriment of both science and society. I hope that now they will be heeded. Theo Theocharis, 200 Merion Road, London SW18 5SW

### SingalongwithMarx - but to a different tune

From Mr Andrew G Gibbs.

Sir, Joe Rogaly, in his article, "Marx the musical" (September 7), doubted whether any of his readers would be able to whistle the tune to the chorus beginning "Strong as the steel

which we shape with precision". I cannot whistle but I suggest singing it (in the bath in my case) to the tune Epiphany Hymn, used for "Brightest and best of the sons of the morn-

ing". I think it sounds very good.

My wife would disagree. Andrew G Gibbs, 23 Shooters Hill Road, Blackheath, London SE3 7AS

### Privatisation has made little difference to BT performance

From Mr J M Harper.

Sir, Michael Cassell's article on privatisation and prices ("On the bandwagon", August 27), raised important questions, but I am afraid fell into some usual traps. There are no absolute yardsticks in the utility price game. Even foreign comparisons are meretricious because of the near impossibility of comparing like for like and the constant shifts in exchange rates.

He also failed to recognise the profound effect of variables specific to the industries. In the case of British Telecommunications the telephone system grew by a factor of three

between 1970 and 1992; and usage grew even more. By privatisation unit costs were steadily dropping; and the sheer volume of revenue was so great and it was growing so fast that the price increases needed to maintain profitability were bound progressively to drop. The enduring economic boom of the 1980s intensified the effect.

History does not begin at privatisation. The useful analysis is over significant periods before and after privatisation; using variables which have an independent meaning. Inflation raised prices generally by a factor of 7.6 over the 22 years

1970-1992. Those of BT rose only by a factor of 4.3 over the same period. They have fallen steadily below general inflation ever since 1992. Privatisation in 1984 had no perceptible effect on this trend - up or down.

BT's real output per head of staff, measured at constant BT prices, has been rising remarkably consistently at 7.5 per cent ever since 1970. The only significant setback to this trend was immediately after privatisation. It has been retrieved by the recent staff reductions. There is a similar pattern in improvement in network service: 3.4 per cent of

local calls failed in 1971, but by 1992 the percentage had been reduced to 0.2 per cent. Again, there was a setback after privatisation, but it has now been retrieved.

The true lesson in BT's case once trends are measured over time seems to be that privatisation has made little difference. It would be interesting to see a similar analysis for the other industries. J M Harper, (last public sector managing director of BT's inland operations), 11 Lullingstone Close, Seaford, East Sussex BN25 4JH

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## FINANCIAL TIMES

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Thursday September 9 1993

## First world debt burdens

THE extraordinary buoyancy of global bond markets is giving the biggest debtors in the developed world an exceptionally comfortable run for their money. One indication of the benign climate for borrowers is that Italy, with a public sector debt stock of more than 110 per cent of gross domestic product, is preparing to launch a record multi-billion dollar debt issue in the international markets. Another is that the UK Treasury, whose performance on inflation has been conspicuously poor, has already met two-thirds of its funding needs in the first five months of the financial year. Is there a risk that the seeds of a first world debt crisis are now being sown?

Certainly debt in the developed world has been creeping ominously upwards. The OECD estimates that in the five years to 1994 net public debt will rise from just over 31 per cent to 39 per cent of GDP. Within these figures the debt burden is heavily biased towards Europe, where the build-up is expected to accelerate sharply over the same period from 41 per cent to 54 per cent of GDP. Yet the bond markets remain enthusiastic, and their enthusiasm is increasingly directed at those countries whose poor past performance in managing public finances results in higher than average yields.

## Bond yields

Convergence in bond yields, a process originally sparked by the push for monetary union in Europe, seems not to have been destroyed by the debacle in the European exchange rate mechanism. Today, 10-year bonds in Britain, France and Germany all trade within the same narrow band of between 6 and 7 per cent, despite these countries' very different experiences of inflation over the past three decades. Countries such as Italy and Belgium, meanwhile, are diversifying their borrowing into foreign currencies. This provides reassurance to creditors, in the sense that the debtor cannot go down the route of inflation and devaluation without facing a huge increase in the real burden of foreign debt. But it also raises the stakes sharply for a debtor struggling with intractable budgetary problems.

The markets are unquestionably right about one thing. Inflation is

not a global problem at present. The question is rather whether the risk of default, either directly or through inflation, is adequately discounted in the bond prices of individual countries. Given that real debt yields in the more heavily indebted countries tend still to be above the likely trend of growth in GDP, debt stabilisation will still call for some unpalatable fiscal measures. In other words investors are taking a great deal on trust.

## Market liberalisation

The best reason for thinking that fund managers may not have taken leave of their senses is that the liberalisation of currency and financial markets, as well as making it easier to borrow, has made it harder to default. Governments know that if policy ceases to be credible, international markets will simply switch off the financial tap. In the absence of exchange controls, politicians can no longer rig domestic markets to ensure that investors buy their IOUs. They have little option but to monetise maturing debt by borrowing from domestic banks, the equivalent of printing money.

This argument would certainly provide a rationalisation for the narrowness of the range within which bond yields have settled. If there is no middle ground in a world of free capital flows between very low inflation and very high inflation, then the variations in creditworthiness between different countries should indeed have narrowed as a result of this increase in the cost of lax policy. But the bond market's euphoria rests heavily on the borrowers' recognition that freedom comes with increased responsibility. The postponement of politically difficult budgetary decisions simply means that the credit crunch will be more devastating when it comes. A hint of what might happen if policy fails to convince came last week when investors started to panic about Belgium, where net public debt of more than 130 per cent of GDP looks worrying without the support of an ERM with narrow bands and the prospect of monetary union.

In the final analysis the crucial judgement is about the politics of the indebted countries. Too few bond investors are looking beyond the short-term financial horizon.

## Modernising the TUC

THE OBSTACLES standing in the way of the re-launch of Britain's trade union movement were on full display at the TUC Congress in Brighton yesterday. The first big speech by Mr John Monks as general secretary elect was partly eclipsed by the threat of a walk-out from left-wing unions over the return of the electricians union to the TUC. The speech was also preceded by a violently worded debate opposing human resource management techniques, something which wiser heads in the trade union movement are trying to influence rather than reject.

Mindful of such constraints, Mr Monks's speech betrayed their glimpses of the modernising spirit which he seems to represent. It was an address concerned firstly to establish his standing with the delegates in the hall and only secondly with the outside world. Yet the arrival of Mr Monks is to be welcomed. He will speed up the transition of the TUC itself from a redundant civil service of the labour movement to a "centre of excellence" concentrating on a few issues like occupational pensions and safety at work.

He will also try to distance the unions from the Labour Party - a process which Mr John Smith, the Labour leader, may have slowed with his effusive speech to the Congress. The arguments in Mr Monks's speech yesterday about how employment insecurity contributes to a broader social instability were aimed at Conservative MPs who cherish family values. Turning the TUC into a more politically neutral lobbying organisation trying to establish new coalitions over workplace issues is worthwhile, regardless of whether Mr Monks can strike up a productive relationship with Mr David Hunt, the employment secretary.

## Constructive relationship

The latter says he has "an open door" for the TUC, which almost certainly promises more than it will deliver for the unions. Indeed, although both Mr Hunt and Mr Monks have their own reasons for wanting to establish a constructive relationship, it is difficult to imagine what they can usefully talk about at present, with the possible exception of training. But to deserve an audience, the TUC must prove its continuing

relevance to employers and employees across a reasonable spread of the UK economy and that it has realistic proposals for reforming the labour market. There was little in Mr Monks's speech to indicate much progress on either count.

The insecure workplace is not, as might be expected, causing a resurgence of trade unionism in Britain and there is no evidence that "the tide of opinion is turning... to regenerate British trade unionism", as Mr Monks asserted.

## Workplace insurance

Elsewhere he has spoken about appealing to the middle managers of "middle England", but this requires more than talking to the government instead of the Labour Party. It means developing a concept of trade unionism that transcends collectivism. Some unions are tackling this by providing support for the negotiation of individual contracts and legal backing for individuals over redundancies and grievances. Such individual workplace insurance is not appropriate for all workers, but it could be made attractive to many more if unions did not hold so many negative associations for them.

Mr Monks must show he has something relevant to contribute to the public policy debate beyond denunciation of the new labour market realities. His speech showed only nostalgia for the age of the steady job, without discussing the irresistible forces behind greater labour market mobility. Britain has always had a relatively deregulated labour market, the effects of which used to be softened for many workers by membership of strong unions. With the decline of those unions and the rise of more varied forms of work, there is a case for new forms of labour regulation that combine minimum standards of protection for employees without placing job-killing restrictions on employers operating in volatile and flexible markets.

The government is evidently unclear about whether it wants another round of employment legislation in the near future. But it may be persuaded that new thinking is required to establish a better combination of flexibility and security at the workplace. The TUC should be part of that debate.

Each week, about 100 letters arrive at the headquarters of Abbey National, the UK mortgage lender and bank, asking for mysteries to be solved. The letters are addressed to Sherlock Holmes, Sir Arthur Conan Doyle's fictional detective, who lived at 221b Baker Street, Abbey's address. Yet even Holmes's analytical powers might have been tested by the strange case of the former building society.

Abbey has behaved oddly of late. Within one month, it has disclosed bad debt provisions of £84m in France because of poor commercial property lending; sold its 347-branch estate agency business for £2m after sustaining a loss of £28m over six years; and set up a joint venture with Baring Brothers, the merchant bank, to sell companies derivative financial products such as interest rate swaps and options.

If Abbey were a Conan Doyle character, its relatives would have visited Holmes to express their bafflement by this time. As it is, its share price has dropped by 4 per cent relative to the stock market over the past month and financial analysts have been asking questions. "Abbey is sending odd signals to the market by going into derivatives, and I am a bit worried about it," says Mr John Wriglesworth, of UBS Securities, the stockbroker.

Abbey's latest revelations have only added to a sense that it is a curiosity among UK financial services companies. It is the first and only of the country's 83 building societies to have converted from mutual ownership. Since its flotation of shares four years ago, it has carried on raising money from retail depositors and lending to mortgage borrowers. But it has also diversified into a series of new businesses.

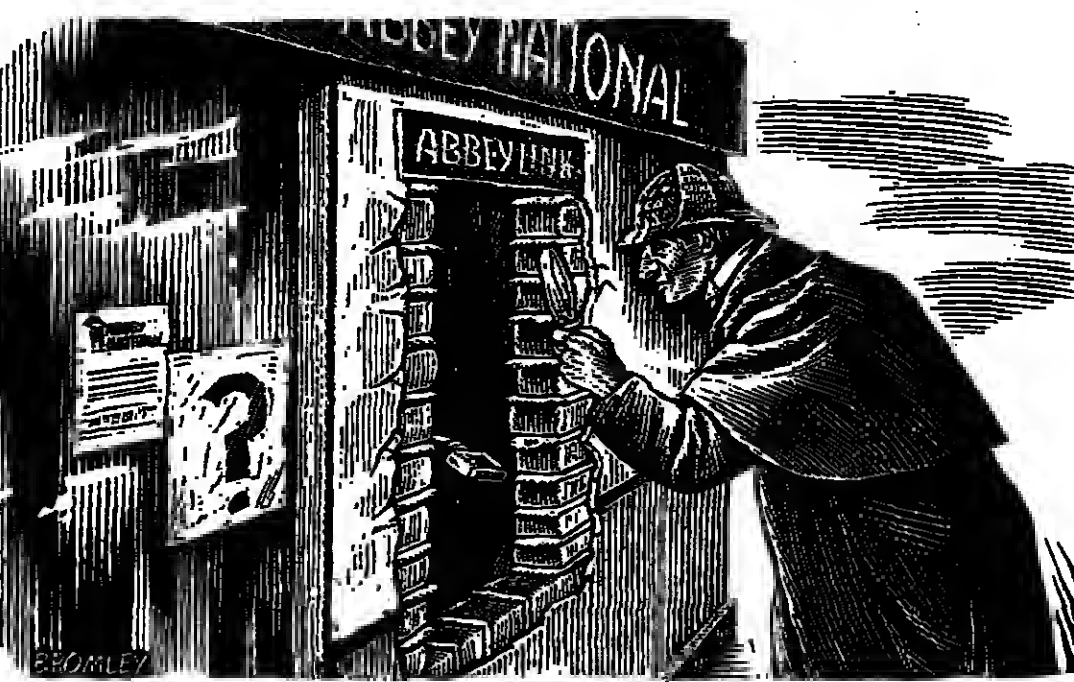
The biggest diversification has been its growth of treasury assets, including syndicated commercial loans, debt securities and even six aircraft leased to British Airways. Its treasury assets have more than doubled since 1990 to £24.8m, compared with £22m in mortgages. It has relied in growth of treasury assets this year, but Abbey may eventually have to allocate a further £35m of its capital resources to the derivatives unit.

Profits from Abbey's treasury have helped to maintain its earnings over a tough period in the housing market. But they have also led to questions over whether it is taking on risks it does not understand. This happened to TSB, the retail bank, which has had to make provisions of £280m on bad corporate loans made by Hill Samuel, the merchant bank, and so far as its 1987 share flotation.

Abbey's management reorganisation announced yesterday is partly an attempt to prevent misadventure by imposing stronger controls. Yet Mr

John Gapper says the actions of a former UK building society have prompted questions over its strategy

## Curious case of the Abbey's habits



Peter Birch, Abbey's chief executive, says it does not mind attracting attention by marching out of step. "We are a hybrid," he says. "I hope that no other societies convert because we succeed by being different. If a lot of others follow, it might clutter our way forward."

The difficulty is defining exactly what his way forward is. Abbey's traditional business of mortgage lending using funds deposited by savers has been squeezed by interest rate falls since Britain left the European exchange rate mechanism last year. As savers have transferred money into investments such as unit trusts that offer higher returns, it has become cheaper to raise funds by borrowing from wholesale money markets.

This has worked in favour of banks such as Abbey in the short term, because societies have strict limits on wholesale funds. Abbey has sold 23 per cent of all new mortgages this year, largely using wholesale funds. But its share of retail savings has fallen, and lending margins have narrowed owing to the cost of such funds. Its scope to raise margins has been curtailed because most new mortgages have been fixed rate.

Mr Wriglesworth argues Abbey has made a crucial switch of strategy by concentrating on wholesale-funded lending. "It is starting to behave like a bank rather than a society," he says. He thinks this could damage Abbey's ability to ride out future dips in profitability. Because of treasury assets and fixed-rate lending, its margins are more tightly fixed than its main

It is difficult to define exactly what the Abbey's way forward might be

competitor, the Halifax Building Society.

As banks try to increase mortgage lending, competition is likely to stiffen. Yet Abbey's last attempt to defend itself against competition led to its blunder in estate agency.

In common with other societies, it bought agents to ensure that they would recommend Abbey mortgages. But, by the time of the sale, it was only selling 5 per cent of its mortgages through its agents, and

had suffered big losses.

The second mistake was to expand into France. It bought a mortgage and commercial property lending business for £40m in 1989, but has been hit by the commercial property downturn. Mr Ian Harley, Abbey's finance director, says this is one reason why it is no longer treating subsidiaries as separate profit centres. "There is a tension between control and delegation, and in France we arguably got it wrong," he says.

Mr Birch also points out that it has made other investments in its retail business that he believes worthwhile. One is the £500m spent since flotation on upgrading its 600 branches. The other is the £265m purchase of insurance company Scottish Mutual in 1991. This has created a wholly owned life insurance arm through which Abbey sells its customers savings products and policies linked to its endowment mortgages.

Yet such investments do not distinguish Abbey sharply from Halifax or other societies. The area in which it has far more flexibility is its treasury. Abbey's flotation gave it a large amount of capital, and allowed a wider use of the money.

Societies' treasuries are largely confined to raising funds for mortgage lending. Abbey operates under the looser constraints of Bank of England supervision.

Abbey's ratios of capital to assets are far stronger than other large UK banks, which gives it an AA credit rating. This allows it to borrow and lend on international capital markets at premium rates. It has gradually moved from simply financing mortgage lending to leasing equipment in order to cut its tax charge and investing in securities. It made £66m profit on these activities in the first half of this year.

Yet there are two concerns. One is over the risks that Abbey may be running, optimised by the move into derivatives. Mr Harley insists that Abbey errs on the side of caution. He cites its policy of ensuring that 90 per cent of all leasing assets are underwritten by other banks. "We deliberately take smaller spreads than we might do because we are extremely careful. We are very strict about risk," he says.

The second problem is the logic of such activity. Mr Birch admits it is largely opportunistic. Abbey has the capital and this is a convenient way of using it. "We think that one of the safest ways of using our capital for now is to put it into treasury assets," he says. Yet such corporate lending and finance activities - no matter how profitable they are - do not fit easily with its roots as a mortgage lender.

The obvious alternatives would be either to use its capital to acquire another retail bank or mortgage lender, or to give it back to shareholders. Mr Birch says Abbey has examined nearly 150 other companies since flotation with a view to buying one, but has not yet found a good fit. He does not favour handing back capital because Abbey wants to keep its credit rating, and even raise it to the rarefied heights of AAA.

Abbey will soon face stronger pressure to make sense of a business that stretches from making unsecured personal loans to trading interest rate swaps. In July next year, five years after the flotation, the temporary ban on the bank being taken over will lapse. It would be expensive to swallow since its shares are currently worth about £5.20n, but any substantial error could now bear the penalty of increasing its vulnerability.

Mr Birch is sanguine about such a notion, arguing that no other financial services company is in a position to take on Abbey. "If any one can really extract increased value out of our business, then good luck to them," he says. But while it remains a hybrid, it will continue to provoke curiosity. If Abbey's management cannot resolve the mystery, others may be tempted to take up residence at 221b Baker Street.

## Too many sentences stuffed with 'I'



It is time to call a halt to political memoirs. This is not because of indiscretions, of which political memoirs contain regrettably few. It is because of excessive length, self-justification and

a tendency to tedium. When Lord Butler's *The Art of the Possible* was published in 1971, it ran to 274 pages. Lord Home, who had been prime minister, ran to 320 in 1976, but the number of words to the page was smaller. Both books remain enjoyable and informative to this day. Butler, in particular, was regarded as a model for future writers. Lord Heseltine studied him closely, yet still came out with 607 pages in *The Time of My Life*. Lord Lawson set the record for a single volume with his 1,118-page *Memoirs of a Tory Radical* earlier this year, yet at least, like Heseltine, he had something to say. Kenneth Baker's effort at 498 pages is the most egocentric book I

have ever read. One doubts if even the FT's computer could count the number of usages of the first person singular. Even the title is a mix of the pretentious and the banal. There have been many "turbulent years" in British politics apart from the 1980s, and so far as the 1980s were turbulent it was not entirely because of Baker.

It is true that one may have underestimated his ambition to be party leader. I had forgotten that when he became party chairman in 1989 Lordbros made him the 21 favourite to succeed Margaret Thatcher, against 72 for John Major and 41 for Sir Geoffrey Howe and Michael Heseltine; the political journalist Peter Jenkins still had him as co-favourite with Heseltine almost a year later.

It is also true that Baker has had a slightly unfortunate political career on the wrong side at the wrong time. He was essentially a "Heathman". When Edward Heath lost the general election in February 1974, Baker felt obliged to stay with him even though he was

The Turbulent Years  
My Life in Politics  
By Kenneth Baker  
Faber and Faber £20.498 pages

plainly itching to move on. He became Heath's parliamentary private secretary, "a rare example of a rising politician joining a sinking ship", as he notes in his selective quotations.

The Heath attachment initially cost him dearly with Mrs Thatcher. Advancement came slowly. It was not until 1985 that he entered the cabinet as secretary of state for the environment. He took his place at the end of the table, "but with each reshuffle," he adds, "I moved closer to the middle".

It is true again that he has some achievements to his credit: the promotion of information technology, for example. It is slightly less plausible, as he suggests, that he was the main driving force behind the privatisation of British Telecom and the water industry. In some areas

where he was active he left behind rather a mess: for instance, the abolition of the Greater London Council without a successor governing body for the capital. On the community charge or poll tax, he argues that all would have been well if his original conditions, such as running it alongside rates, had been implemented.

He did much better at education. It is a strange fact that he was one of the few secretaries of state in recent decades to look at the educational system as a whole. Mrs Thatcher did not make much of a fist of it when she did the job herself; she neglected it in her early years as prime minister. Baker at least sought fundamental reforms and the raising of standards. He stayed for three years (almost a Conservative record) before being moved to the party chairman ship.

The trouble there was that while he was not a great friend of Mrs Thatcher, he came to admire her and wanted her to stay. As a cabinet spending minister, he claims

that he was one of the few who consistently stood up to her. This led to a certain mutual respect. By then, however, the prime minister's days were beginning to be numbered and Baker was again riding the wrong horse. He seems to have done this with some honour, at least according to his memoirs: certainly he did not conspire against her, as the right-wing of the party had thought he would.

After her fall, he became briefly home secretary, then turned down the Welsh Office and left the government when Major won the 1992 election.

Yet the real sadness does not concern his career. It is that a man steeped in English literature and English history should dash off such a memoir, not much edited, not well-written and entirely without detachment. Kenneth Baker, the former education secretary, should be ashamed of himself. One hopes Lady Thatcher will do better.

Malcolm Rutherford

## Noses out of joint

■ Rupert Pennant-Rea, new deputy governor of the Bank of England and erstwhile editor of the *Economist* magazine, is at last putting his famous reforming zeal into practice.

Senior bank staff are in mourning because he has announced the abolition of the Golden Trough. This is the nickname of the dining room on the fourth floor of the Bank reserved exclusively for 35 senior officials, including the department heads. The only identifying mark on the door is a big "private" sign.

It was set up in the 1930s to allow the chief cashier, who then acted as Bank chief executive, to keep in touch with the officer class. Since then it has become, in the words of one stricken official, "a wonderful perk".

However, Pennant-Rea believes that such privileges are divisive and old-fashioned. From January the executives will have to troop across Lobbying to the staff canteen in King's Arm Yard and eat with the other ranks.

He is also making the canteen more egalitarian by abolishing a separate area reserved for principals, the rank below senior officials. However, Pennant-Rea himself will be able to avoid rubbing shoulders with the troops

over lunch. The directors' private dining room is to be retained.

## Mates on board

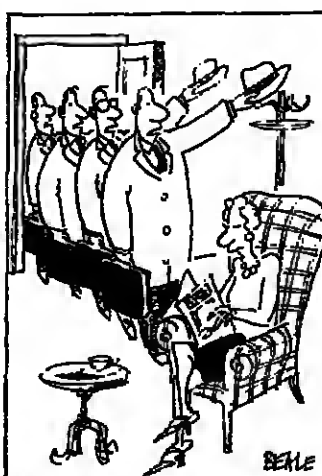
■ The last time *Observer* spoke to Lord Kingsdown, just before he retired as governor of the Bank of England in June, he said he would love to return to the private sector, though in his self-deprecating way he said he did not have a clue whether any big companies would wish to have him as a non-executive director.

Yesterday the former Robin Leigh-Pemberton, chairman of NatWest following becoming governor in 1983, landed a directorship at Glaxo, the pharmaceutical company. There he will join Lord Howe, the former Geoffrey Howe, who has not played an insignificant role in Lord Kingsdown's past career. For it was Lord Howe who, as chancellor of the exchequer, offered Lord Kingsdown the governorship just before Christmas 1982.

## Mainz and men

■ The awful truth is slowly starting to dawn in Germany that perhaps Frankfurt may not be a foregone conclusion for the site of the future European central bank. The bank's forerunner, the European Monetary Institute, is

## OBSERVER



supposed to be up and running by January 1 next year, and still no one can agree where it should be.

It is not that anyone gives credence to British misanthropic optimism that London still somehow has a chance of hosting the institution itself. It is merely that the British resistance to Frankfurt, as the rival financial centre to London, appears to have gained support in Paris.

Step toward the good citizens of Mainz. Barely a stone's throw further from Frankfurt airport than the German Bundesbank itself, just across the river Rhine, Mainz believes it can offer almost all the

advantages of its neighbour, without the disadvantage of the name. It can even offer a central bank building with vacant possession: the former headquarters of the state central bank of the Rhineland-Palatinate, now amalgamated with that of neighbouring Saarland.

It has high-level support in Paris, according to French officials in Bonn for the recent visit of Edouard Balladur. After all, Mayence is more than a little French; Napoleon made it his military headquarters for one campaign, and more recently, it was in the French occupation zone of Germany after the second world war.

Yet the British remain hostile. For them, Mainz is far too close to Frankfurt for comfort. "You can almost see the top of the Bundesbank from Mainz cathedral," one Whitehall official remarked grimly yesterday.

## Secret scoop

■ Adam Mynott, a BBC radio reporter, fell on his feet in a big way yesterday when he telephoned the Downing Street press office and found himself listening to a conversation between John Major and Kenneth Clarke.

Major said later that the few seconds of conversation overheard by Mynott involved no security breaches, although Downing Street has started an inquiry. Mynott was saying nothing about what he

heard, but watch out for budget scoops.

## Brian who?

■ Canada's most famous jutting jaw and baritone voice were conspicuous by their absence yesterday. As politicians launched their campaigns for the October 25 general election, not a squeak came from Brian Mulroney, who stepped down two months ago as the most unpopular PM in recent Canadian history. He signed on last month as a senior partner at Ogilvy Renstall, a law firm. His job is to broaden its international links, but no one would be surprised if Mulroney doesn't try to forge a few himself. He was considered a few years ago as a candidate for UN secretary-general, and would probably be interested if a similar job came up.

But for all his famed negotiating skill, Mulroney has a black mark against his name on the international stage. He has been widely criticised for one of his final acts as prime minister, which was to recall Don McCutchan, Canada's representative at the European Bank for Reconstruction and Development. McCutchan was the most consistent critic of the EBRD's high-spending ways. Not surprisingly, Mr McCutchan has landed a less glamorous job than Mulroney. He started yesterday with Ronald Chisholm, a Toronto food importer and exporter.



EC commissioner says jobs crisis will not be solved by driving down pay

## Flynn warning on low wages

By David Gardner in Brussels

A SOLUTION to the European Community's jobs crisis cannot be obtained at the price of dismantling EC social provisions or driving down wages, Mr Padraig Flynn, EC social affairs and employment commissioner, said yesterday.

As opinion among his Commission colleagues and the 12 member states is leaning in favour of labour market deregulation and reducing labour costs, Mr Flynn insisted that focusing too exclusively on wage costs was a blind alley.

"The [EC] social dimension has to be kept on board," the commissioner told journalists. "We're not talking about dismantling

workers' rights."

Mr Flynn said the Commission's consultative document on EC competitiveness, growth and employment - ordered by June's Copenhagen summit for the December summit of EC leaders in Brussels - might recommend that specific countries alter labour market and taxation policies.

These are areas in which the EC has very limited jurisdiction, and the step would be more controversial given the new Community orthodoxy of subsidiarity, limiting EC action to areas where national or regional government cannot act as effectively.

Mr Flynn underlined that there was as yet no consensus on the content or form of the consulta-

tive document inside the Commission. But he said that "with the crisis deepening, and the credibility of the Community on the line, I think we have to go that step further."

On wage and non-wage costs, the Irish commissioner insisted that the real issue was productivity and unit labour costs, singling out the UK, which he described as the most deregulated labour market in the EC.

"Half the population [in the UK] now lives on one quarter of national income," he said. "Ten years ago the same number lived on a third of national income, and they've still got 3m unemployed."

Mr Flynn made the comparison with Belgium, pointing out that

British wages were 30 per cent below Belgian wages, but that the UK "has exactly 70 per cent of Belgium's productivity".

The thrust of Mr Flynn's department's analysis remains that solutions must be found through making working time more flexible by upgrading skills through education and training. Part of the burden of non-wage costs, like social security, could be shifted from employment to other areas, for example through eco-taxes on scarce resources.

Unemployment in the EC dipped to 10.6 per cent in July from 10.7 per cent in June, but the fall is not a sign of economic recovery, the EC's statistical office said yesterday. Renter reports from Brussels.

## Piëch supports López but speaks of enemies all round

Continued from Page 1

"And if your nearest environment turns against you, you really don't feel very good".

Mr Piëch had been re-elected at the insistence of the workers' representatives on the Audi supervisory board, despite a deepening crisis in the company. "I had been running the company for many years... I did his job," Mr Piëch recalls, with no apparent sense of paradox.

"I said I would stay one more year... But for the next six months I did only my job in research and development, and left everything else to him."

"The crisis deepened. Workers' officials overcame their fear of his rigorous style and fears that he would shift production abroad. They came to me and said they had made a mistake and that they would correct it." At the end of his ultimatum year, Mr Piëch got the job. "It was at that time that I learnt I needed allies."

"In those days, when my wife went shopping nobody wanted to know her. Now when she goes out in the village where we live, surrounded by many Volkswagen people, they come to her and say, 'Stay, fight, you will win, we need you'."

"It's a new experience for me, but we have a very strong relationship now between labour and management," he says. He sees

his allies in the group's 115,000-strong workforce.

Even though their ranks are being thinned by his and Mr López's costs drive, he says, they understand better than some more senior people that things have to change.

A curious picture emerges of a D-Mark-billionaire Austrian, content at last in an isolated patch of Lower Saxony, in alliance with hard-headed trade unionists in a grassroots Social Democrat stronghold. From there, he thumbs his nose at conventional German business wisdom while his motor industry associates look on with mounting alarm as he goes his own radical way.

"There are some who believe that the worst thing of all would be if he were to succeed," says a company insider. These, the theory goes, include Chancellor Helmut Kohl's Christian Democrat party and its sister-grouping Christian Social Union, supported by mainstream business, playing a double game.

This alliance would like to be rid of Mr Piëch and Mr López. On the one side the aim is to discredit the Lower Saxony government and the labour-dominated VW supervisory board. One result, it is imagined, would be to improve the conservatives' chances of winning next year's federal and regional elections. The Bonn government lost its

say in VW affairs when it sold its last holding and withdrew its two representatives from the supervisory board. Another result would be to demonstrate that Germany's traditional "softly, softly" approach to reform is, after all, best.

Whether Mr Piëch can believe in such a convoluted conspiracy theory or not, he has repeatedly emphasised that there is no going back to the company's old ways.

As Mr Piëch's confident proclamations of a group turn-around this year fade into muttered assurances of a profit from his power base at the German parent, it becomes almost daily more apparent that a vital short-term aim is to keep the faith with his key shareholders and his suffering workforce.

If that means sacrifices elsewhere, then Mr Piëch is not afraid to make them: ruthlessly if need be.

There have already been signs enough of wavering on the supervisory board, prompted from without as well as within. Mr Piëch has a saying, which he has refined since his Audi days, and which has been heard in Wolfsburg recently: "Either I do it my way, or I go."

The chances appear to be increasing that if he were to use it now in earnest, he might have to accept defeat, and leave Volkswagen to the still-lively corpses in the cellar.

## SNCF takes steps to get back on track

By John Riddling in Paris

FRANCE'S national railway yesterday announced a series of measures to draw passengers back into its carriages following an unfortunate brush with high technology.

Mr Jacques Fournier, president of the SNCF rail company, sought to restore its image as one of Europe's most efficient services following the introduction of a computer booking system that created chaos and had prospective travellers waiting up to 40 minutes for tickets that were often wrongly priced.

The over-complex system, called Socrates, was introduced at the beginning of this year at a cost of about FF1.3bn (£220m). Plagued by software problems, it tarnished the image of France's proud railways, contributing, along with recession, to a 6 per cent fall in passengers in the first half of the year.

Mr Fournier assured passengers that technical problems had now been ironed out.

The system had succeeded in making 18m reservations in June, July and August and could make 420,000 reservations daily, compared with 201,930 a day under the old system.

But just in case of hiccup, SNCF will allow passengers to board a train with a simple "ticket of access" and pay the fare in their compartments. This should avoid the biggest problem arising from Socrates' teething troubles: frustrated passengers who gave up waiting for tickets and boarded trains without them were liable to be fined.

Special offers are to be introduced next month in which young passengers, families and the over-60s will be offered 50 per cent discounts on cards which give reduced rail fares. The validity of reduced-fare cards issued so far this year will be extended by three months.

Drawing travellers back on to the trains is not just necessary for the image of SNCF. The company's losses so far this year amount to about FF8bn.

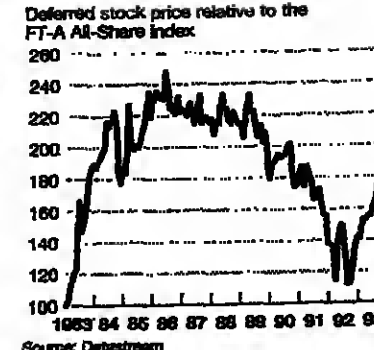
## THE LEX COLUMN

# Heavy weather at P&O

FT-SE Index: 3035.4 (-3.2)

P&O

Deferred stock price relative to the FT-SE All-Share Index



Source: Datastream

Like many UK companies, P&O could do with a decent dose of inflation. Not only would this swell the value of its cash asset base and shrink the relative burden of its £1.7bn of debt. It would also enable P&O to push through much-needed price rises in its housebuilding and shipping arms. As it is, although P&O is seeing a pick-up of activity in many areas, it is experiencing little improvement in margins. This joyless recovery has left it with creaking timbers as an 11 per cent decline in net pre-tax profits illustrates. The 7 per cent fall in the company's stock price reflects renewed doubts about P&O's ability to sustain its hefty dividend.

P&O's enhanced scrip dividend temporarily eases the pressure since it effectively works as a minor rights issue. It saves £35m of tax from disappearing into the Chancellor's pocket, and preserves £163m of cash. But the scrip dividend will only pile up future financial worries for P&O. If fully taken up, it will expand P&O's equity by about 6 per cent. That will prove expensive to finance given the stock's yield of 6.5 per cent.

More robust economic recovery, if not inflation, could yet save P&O's blunders. But it will take P&O several years to generate the profits needed to rebuild cover sufficiently to contemplate any dividend increase. The added longer term worry is that P&O has recently been selling the ballast that enabled it to keep an even keel during the downturn. The stable earnings contributions from companies such as Sutcliffe can no longer be relied upon in future.

## Prudential

It is a measure of the stock market's distrust of the life insurance sector that yesterday's 10 per cent increase in Prudential's interim dividend barely drew a response. While the immediate prospects for dividend growth turn on cash profits from old business now maturing, the government's demand for full disclosure of commissions threatens to undermine new business prospects. Until the impact of reform is clear, that uncertainty outweighs the promise of a rising dividend.

Still, Prudential looks better equipped than most to deal with both disclosure and increased competition from banks and building societies. Disclosure should favour companies with low costs and efficient distribution. The Pru's continuing drive to reorgan-

ise its sales force - with the prospect of cost savings of £100m a year - is thus encouraging. Recent links built with independent financial advisers through sales of the Prudential Bond contribute to a useful diversity of distribution.

Prudential also has sufficient scale to look elsewhere if its traditional market remains clouded. The prospects in Asia are exciting, but only for the long term. In the US, Jackson National's annuity products are less attractive in an era of low interest rates, so diversification into other areas makes sense. There is equally a chance that consolidation in UK life insurance will bring opportunities to buy market share. While the high level of gearing remains an obstacle, Mr Mick Newmarch has built sufficient support among investors not to let it pen him in.

## Unilever

The acquisition of a \$500m-turnover US company, the biggest in its field, would rank as a material transaction in most people's books. But for Unilever, the agreement to buy Kraft General Foods' ice cream business counts as little more than a handy bolt-on acquisition. Given the consideration represents less than 5 per cent of Unilever's assets, it is not even obliged to disclose the purchase price.

Unilever has long desired to bolster its US foods interests. Adding KGF to its existing US ice cream business will make Unilever market leader in a fragmented field and will doubtless provide opportunities for distribution and marketing synergies. Unilever may have its work cut out reversing KGF's

recent weak trading run. But Unilever seems unlikely to have paid over the odds. It can afford to wait.

Philip Morris's decision to sell out of ice cream is indicative of the trend among food manufacturers to narrow their focus on fewer markets in which they have a dominant position. Unilever has already gone a long way to winnowing out its brand portfolio. But in Europe, Nestlé and BSN have scarcely begun the process. The difficulties of managing weaker brands are escalating by the day as retailer power grows stronger. Asset swaps among the bigger operators may become an increasingly frequent feature of the food scene.

## UK indices

The FT-SE Actuaries UK indices committee is grappling with a slippery subject when it tries to define a UK company. Thus far, the pragmatic yardstick that companies prepared to pay UK tax are UK companies has held up reasonably well. But the proposed structure for New Rothmans and Vendôme has shown up the inadequacies of the definition. The deal is pretty clearly designed to minimise advance corporation tax problems by creating parallel UK and overseas companies which are permanently stapled together, but which also allow shareholders to select a UK or overseas dividend. Other UK companies with ACT headaches might in future be tempted to follow similar paths.

Yet this problem is primarily a function of the difficulties of advance corporation tax, rather than the degree of "Britishness" of the company. Other hard cases such as Eurotunnel remain eligible despite the vagueness which surrounds the status of dividend payments the company hopes, one day, to make. Nor, apparently, will those who make use of the government's proposed foreign income dividends be excluded from UK indices. The issue of partly split dividends where one element is a compulsory UK taxed payment remains mercifully vague.

Taxation as a means of separating sheep from goats has thus probably had its day. A wider look at the issue is needed, and a useful starting point might be consideration of what investors want an index to tell them. Exposure to a local economy and corporate governance are perhaps key issues, though given the high level of overseas earnings in FT-SE 100 companies, the difficulty of designing a genuinely UK index is clearly acute.

## GM calls for full co-operation

Continued from Page 1

documents and that they had destroyed them [in the week beginning March 22] on VW property so that they would not come into VW hands, even though it was individuals who would later become VW employees that took these documents, and, we believe actually used them," said Mr Hughes. Why had the destruction of GM documents taken place, he asked, "unless

they had something to hide". VW has consistently denied it used the documents.

"Even today we have not received an apology nor a listing of the documents destroyed. It is just as if, OK, it happened, but nothing more."

Mr Hughes said GM's US lawyers had written to Mr Piëch on March 23, long before the public prosecutors' investigation began, to ask him to list and return any GM documents and any copies

that came into VW possession.

Mr Hughes questioned why the VW supervisory board had not yet taken action.

"By virtue of their inaction they are making a Lopez case into a VW case. But OK, we are all grown-ups. We will support the public prosecutors to the end, and it will be a tragic end."

"We were deeply wronged and badly damaged. Someone must pay for that in the courts and in the bank."

## FT WORLD WEATHER

### Europe today

Cloud and rain will extend from the Alps through Denmark towards the northern UK, with north-westerly winds of near gale force on the Irish coast. Thunderstorms and rain are expected in the southern Alps as a cold front moves east. In the cool air, thunder showers will develop across the north-western Spanish highlands and northern Portugal. South-east Europe will be sunny and dry conditions with temperatures above 30 C.

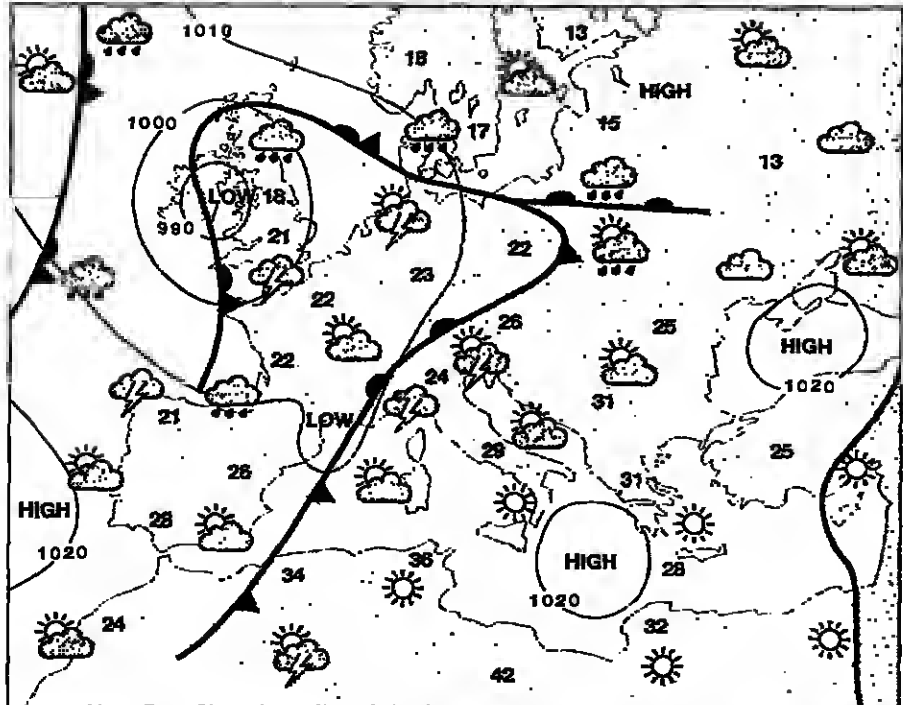
The Low Countries and France will remain unsettled. Cool air moving into Scandinavia will make widespread frost likely during the night and early morning. High pressure over the region will suppress showers.

### Five-day forecast

Rain clouds will persist over the UK with only short dry intervals. As depressions move north-east, cool air will reach northern France and the Benelux giving rise to unsettled conditions. In southern Europe, thunder showers will shift towards the Balkans. Elsewhere, it will be sunny and warm. Scandinavia will stay settled and dry in most places with more widespread frost at night.

### TODAY'S TEMPERATURES

	Maximum	Belfast	rain
	Celsius	Seigrade	sun
Abu Dhabi	sun 38	Berlin	drizz
Accra	thund 28	Bombay	thund
Algiers	thund 34	Bombay	thund
Amsterdam	shower 22	Bombay	shower
Atlanta	sun 30	Bombay	shower
B. Aires	fair 18	Budapest	rain
Bombay	thund 32	C. Jagan	rain
Bangkok	thund 32	Cairo	sun
Barcelona	fair 27	Cape Town	cloudy
Beijing	thund 29	Caracas	thund



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June 1993



## WORLD CAR INDUSTRY 9

**E**VENTS of the past year demonstrate that Japan's carmakers are not invincible in the US. Many observers, following their performance in America during the previous two decades, were beginning to think they were. Japanese car brands - imports as well as those made locally - finished last year with an American market share of 30.1 per cent. Their slice of the total vehicle market, which includes pick-up trucks, off-roads and people-carriers, was 24.3 per cent.

Both kinds of market share were down, marginally, from the previous year's, but the slide became more pronounced during the first half of this year, when Japanese nameplates accounted for 27.6 per cent of the car market - 21.9 per cent overall. It was their worst performance in five years.

Japan's only good news came from Nissan and tiny Isuzu: both gained market share against the trend. Even Honda, America's darling during much of the 1980s, faltered, as the

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North America  
Trends

Accord slipped from number one to fourth in the car popularity stakes.

Not that European brands fared any better. Combined sales dropped more than 15 per cent in the first half of the year, and now account for little more than 2 per cent of the total US vehicle market. In other words, Japan outsells Europe in the US in a ratio of almost 10:1.

Overall, the drop in Japanese car sales was much too large to be a statistical quirk. While Detroit's Big Three, General Motors, Ford and Chrysler, between them found more than half a million more new customers in the first half-year compared with one year earlier, Japanese companies lost almost 15,000 sales.

This is a particularly challenging period for Japanese car makers. The poor returns in the US come against a background of sluggish sales in Japan itself and a dramatic fall in demand in Europe. With the exception of sales to Latin America and southeast Asia, Japanese vehicle exports everywhere are stalled.



The Altima, one of two new Nissan models, is manufactured at Smyrna, in Tennessee. Together with the Quest minivan, the Altima helped Nissan to post a half-year sales increase of nearly one fifth, to just over 330,000 units

## ■ THE JAPANESE IN THE US

## Slide becomes more pronounced

Nissan and tiny Isuzu manage to steer clear of the downward trend - and gain market share

At the same time, Japanese companies are committed to a costly build-up of transplant factories in North America and Europe. In the wake of the yen's apparently ceaseless appreciation, they may prove a long-term salvation to some of the US's problems, by reducing its dependence on exports.

The yen is hovering at about 100 to the dollar, compared

with about 125 one year ago. While exporters managed to cope with adjusting from 260 yen to the dollar of the mid-1980s, the latest exchange rates are proving too much, even for a successful and wealthy company such as Toyota.

It is easy to see what that degree of swing will do to prices of direct imports from Japan. But it also affects

vehicles made by Japanese companies in the US. Many of their components are still imported.

The rising yen will be a further incentive for Japanese companies to honour a commitment to raise the local component content of their American-made vehicles from about 55 per cent to 70 per cent.

Japanese vehicle prices in

the US are beginning to reflect the yen's strength, although the fight for customers in the market place means that actual purchase prices are a good deal closer to those of American products than the list prices suggest.

Consumer belief that Japanese models are much more expensive than those of GM, Ford and Chrysler, contributed

to the resurgence in Big Three sales. So did the distinct shift in public attitude about buying US products. Now that many Americans are hostile towards Japanese trade policies, it is almost chic to buy US cars these days.

On the other hand, the US come-back is masked by the large proportion of fleet sales, perhaps more than a quarter of

the total. This traditionally low - or zero - profit business is almost the Big Three's exclusive preserve.

Japanese companies say their largely retail business has held up well. They also point to the slower economies along the west coast, where the Japanese have historically been strongest. Those regions are suffering in the wake of

recent defence cuts. Nevertheless, the shift to US brands is understandable because the country's car companies responded positively to Japanese competitive pressure in the 1980s. Detroit made quantifiable improvements in vehicle quality in recent years, described in surveys by the independent J.D. Power market research group. While Japanese brands still come top of Power's annual initial quality and customer satisfaction surveys, US models are coming much closer. "Quality is not an issue any more," says a Power spokesman.

Nissan's counter-trend improvement in sales stemmed largely from the addition of two new models, both of which are made in the US. Sales of other Nissans reflected the more general Japanese trend. The new Nissans are the Altima, a saloon manufactured at Smyrna, in Tennessee, and the Quest minivan, or people-carrier. Made by Ford for Nissan, Quest was designed in Nissan's California studios. Between them, Altima and

Nissan and Infiniti remain well behind Toyota and Lexus, which ended the first six months with a slightly reduced market share

Quest helped Nissan to a half-year sales increase of nearly one fifth, to just over 330,000.

Given the general malaise among Japanese producers, that is impressive, but it only moves Nissan back towards the position it enjoyed during the mid-1990s. Nissan, together with its upmarket Infiniti marque, remains well behind Toyota and Lexus, which ended the first six months on 509,000 sales and a slightly reduced market share.

Nissan was on fairly level pegging with Honda and Acura, whose 328,000 sales were achieved in the absence of any offerings in the increasingly important market segments for minivans, pick-ups and off-roads. Technically, such vehicles are trucks, although they are usually used like passenger cars. They now account for three out of every five vehicle sales in the US.

The trend continued this year. While traditional passenger car sales eased up 2.4 per cent, truck demand soared up 17.4 per cent.

Richard Feast



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## WORLD CAR INDUSTRY 10

## ■ FRANCE

## Domestic registrations take a fall

Peugeot-Citroën and Renault have been struggling to respond to the downturn

**F**RENCH car manufacturers cannot remember when times were so hard.

Recession at home, falling demand in most of their principal European markets and the increased price competitiveness of many of their international rivals have left Peugeot-Citroën and Renault struggling to respond to the downturn.

The domestic market, burdened by a sluggish economy and depressed consumer confidence, contracted by 17 per cent in the first seven months of the year, compared to the same period in 1992. Motor industry analysts see little hope for rapid improvement.

"There isn't any sign of an upturn for the rest of the year," says Mr Bob Barber at James Capel, who forecasts a full year decline in the French car market of about 15 per cent.

The downturn has taken its toll on the two principal carmakers, particularly in their home market. Registrations of Peugeot-Citroën cars in France fell by almost 19 per cent - to 300,500 vehicles - in the first

seven months of 1993. Renault did better, but still suffered a fall of 12.7 per cent - to 314,000 vehicles, according to figures from the Committee of French Automobile Constructors.

Profits will naturally be affected. Renault, the world's most profitable car manufacturer in 1992 (in terms of the ratio of net profits to sales), saw pre-tax profits plunge by almost 90 per cent - from FF75.44bn to FF73.05bn in the first half of the year. Peugeot-Citroën, which saw profits fall from FF75.38bn to FF73.37bn in 1992, is expected by most car industry analysts to fall into loss this year.

Amid the gloom, however, there are some signs of encouragement. Improved sales in the UK and increased market share in Germany allowed Peugeot-Citroën to report first half sales of FF73.05bn, a fall of 11.4 per cent over the first half of 1992.

This decline masked a relatively strong second quarter, in which sales fell by 6.8 per cent. "The results were better than expected," says one French car industry analyst, adding that the introduction of new models such as the Citroën Xantia and the Peugeot 306 would help sales, particularly with the introduction

- in June - of diesel models. For Renault, there is consolation in the fact that the company is winning market share from its domestic rival and from international manufacturers.

Renault has continued to strengthen its image at the expense of Peugeot," says one car industry executive in Paris, citing the Safrane, the high-end model which has enjoyed a successful introduction.

For both car manufacturers there is also the potential benefit of a weaker franc.

Peugeot-Citroën and Renault have both lost competitiveness compared with manufacturers in Spain, the UK and Italy, while all have seen their currencies depreciate significantly over the past nine months.

The weakening of the European exchange rate mechanism



Introduction of new models such as the Peugeot 306 should help sales

at the beginning of last month, however, has brought a depreciation of the franc of about 3 per cent. It has also raised the prospect of reduced financial costs through lower interest rates.

But the prospect of continued depressed demand raises a series of difficult decisions for the French carmakers. In particular they are faced with the

need to reduce production to adapt to the adverse conditions. Peugeot-Citroën has already announced reduced working days at its factories in Mulhouse and Sochaux in eastern France and is reducing its workforce by almost 3,000 this year. It has also announced that it is stopping production of its 405 model in its UK factory.

Car industry analysts in Paris say that, for Renault, the downturn in the market increases pressure to finalise its merger with Volvo, the Swedish car manufacturer, so as to achieve production economies.

Mr Gerard Longuet, the French industry minister, is pressing Renault to complete the alliance with Volvo to prepare the French carmaker for privatisation.

A final deal, which is thought to be imminent, will give the merged company 12 per cent of the European car market and more than 20 per cent of the European truck market.

It will allow the merged company to achieve economies of scale and reduced production costs and enable joint marketing and research operations.

If the French government has sought to galvanise the two companies into a speedier marriage, it has also sought to protect the French car market from what it regards as incoming suitors.

Both Mr Longuet and Mr Alain Lamassoure, the minister for European affairs, have appealed to the European Commission to re-open negotiations with Japanese car manufacturers concerning the level of their exports to the European market.

The French government argues that the worse than expected decline in the European market requires a further cut in Japanese exports. The Japanese Ministry of Trade and Industry had previously agreed to a reduction of about 9.4 per cent in exports to the EC, based on a fall in European car sales of 6.5 per cent.

The two sides are expected to meet again in September to discuss this issue. But the mood of the French car makers is unlikely to have been improved by then.

John Riddling

## ■ SWEDEN

## Tough battle for recovery

Volvo and Saab depend on the alliances they have forged

TO judge by the dismal performance recently of Volvo and Saab, Sweden is not a good place to make cars.

Operating losses in Volvo's car division piled up to SKr4.45bn in the years 1990, 1991 and 1992. In the same period, overall losses at Saab totalled SKr8.18bn. Both companies have continued in the red in 1993, suffering heavy declines in the numbers of vehicles sold in the first half of the year.

There has taken place against a background of a catastrophic decline in their home market. New car sales in Sweden, in the grip of a fierce recession for the past three years, have plummeted from a peak of 340,000 in 1988 to an expected figure this year of less than 120,000.

The survival of these two potent symbols of Swedish manufacturing and engineering prowess has come to depend on the alliances they have forged with foreign volume car producers - in France's Renault, in the case of Volvo, and with America's General Motors, which is a 50 per cent co-owner of Saab along with Sweden's Saab-Scania group.

Already, both companies have undergone profound and expensive restructuring which has cost the jobs of thousands of their Swedish workers. Now, with new models launched, Volvo and Saab are fighting to prove that Swedish

carmakers can have a profitable future - albeit under the wing of foreign partners.

With the bulk of cars produced by both companies sold overseas, the collapse of the Swedish market is not as damaging as it might seem at first sight. But it makes the task of recovery even harder, particularly given the double-digit decline in car sales in Europe this year.

The strategy common to both the Renault-Volvo and the GM-Saab links is that both the Swedish companies will continue to produce cars that retain a clear Volvo and Saab identity. Their individual look - the body styling - and their Swedish qualities of safety, performance and "greenness" will be carefully preserved. Meanwhile, under the skin, there will be the maximum use of common components, design and production systems, to cut costs.

However, the evolution of the two alliances has been very different. In the case of Saab, the smaller of the two rivals, GM bought in 1989, took over management control and has since pumped in SKr4bn in new capital, matched by a similar amount from Saab-Scania, which is fully owned by Sweden's powerful Wallenberg family.

Saab now operates as an arm of GM, producing its premium 900 and 9000 models to compete principally with BMW, Audi and Mercedes in a market segment GM and its European operation Opel otherwise do not directly contest.

For Volvo, the link with Renault has been more complex. It began in September 1990 with an exchange of

minority stakes at a time when Volvo had been waxing strong and Renault's finances were weak. Since then, however, this position has reversed to the point that Volvo is set to be the junior partner when the link matures into a full merger, as is anticipated shortly.

Volvo shareholders have expressed some confusion over what Mr Pehr Gyllenhammar, the chairman and long-time chief of Volvo, intends the future shape of the company should be. This confusion has been compounded by the deal Mr Gyllenhammar struck with the Swedish government earlier this year over Procordia, the drugs and food group jointly controlled by Volvo and the state.

Under the accord, Volvo will take over the food businesses of Procordia and retain up to a 35 per cent stake in the spun-off pharmaceutical unit. Many Swedish investors have questioned why a car, truck and marine engine manufacturer should want to diversify in this way.

The resolution of what had

been a year-long wrangle with the government over Procordia cleared the way for further deepening of the Renault-Volvo relationship.

Already, Renault and Volvo have gone a long way towards integrating their car production. They make some 20 per cent of their annual purchases jointly to cut supply costs and say this could rise to 80 per cent. Renault supplies engines and gearboxes for the smaller Volvo 400 series made in the Netherlands. It will supply diesel engines for both companies, while Volvo's latest petrol engine will go into some Renault models.

In June, they set up a joint department to plan new car production and they plan a common platform for their next generation of executive models. Both Volvo and Saab, in league with their foreign partners, have done much to improve their competitive position. They have been helped considerably by the strong devaluation late last year of the Swedish krona. But in a falling market, with heavy overcapacity in world car making, they still face a tough battle for recovery.

Hugh Carnegie

## ■ SPAIN



A new Ibiza model will be manufactured at Seat's plant near Barcelona

## New mood of austerity

Everywhere, companies are putting production lines on short time

**T**HE multinationals manufacturing cars in Spain tell a common tale of losses and, also, of big investments geared to put their operations back into the black. The two themes of the tale run in parallel. The losses are as much a product of depressed markets as of continuing capital investment programmes. The investments firmly underlie the shared belief in Spain's future as one of Europe's leading car producing centres.

Nissan Motor Iberica, which is 66 per cent owned by the Japanese car manufacturer, posted losses of Ptas14.3bn last year. Profits at Ford fell by 47.8 per cent to Ptas10.7bn and Seat, Volkswagen's 100 per cent-owned Spanish subsidiary went into the red for the first time in four years, registering 1992 losses of Ptas12.7bn.

By the first quarter of this year, Nissan was preparing the markets for even greater losses. At the end of March the Spanish company's losses topped Ptas11bn, against Ptas1.7bn in the first three months of last year, and Nissan, the parent company, announced it would wholly subscribe an immediate capital increase of Ptas5bn, at par, for the Barcelona-based producer.

Nissan Motor Iberica's board approved further capital increases up to a maximum of Ptas27.8bn and the parent company said it was studying a further Ptas5bn capital injection this year and an equivalent investment in 1994.

The pattern of losses plus greater investment was evident elsewhere in the domestic car sector. Seat, which expects to post further losses this year, has invested a total of

Ptas244.5bn in a new plant, also near Barcelona, which was inaugurated last spring. The plant, possibly the last great car production centre to be built in western Europe, is destined to manufacture a new Ibiza model.

Ford had earlier chosen Spain as the production centre for its "Sigma" motors. This involves investment in the region of Ptas70bn and the addition of 800 highly qualified employees to the US company's 12,000 labour force at its plant near Valencia. The "Sigma" motors are based on a four-cylinder, 16-valve prototype and consist of a full range of models up to 1,400cc.

Such investments amount to

a courageous long-term bet. Already at the beginning of this year domestic industry experts were forecasting a fall of between 5 and 7 per cent for 1993 in the internal car market.

The final figures could be a lot worse than the most pessimistic estimates in that initial forecast. Recession continues to make big inroads on the Spanish economy and the government is now saying that that 1993 GDP will show negative growth of 0.5 per cent. Independent economists say the GDP is likely to close to minus 1 per cent.

The Spain-based manufacturers are even more concerned about the economic stagnation elsewhere in Europe. This is

because Europe is the domestic industry's main client and has in the past absorbed as much as 70 per cent of the sector's output. To a degree, the falling demand in Europe will be compensated by the shrinking value of the peseta which has depreciated by more than 20 per cent on the past 12 months against most leading currencies.

The investments however, in the main, date back to the buoyant late 1980s period and it would prove even more costly to stop them short at this stage.

Just as Seat has its hopes fixed on the models that will roll out of its new plant early next year and as Ford linked up a good measure of its future in Spain to the "Sigma" motor, so Nissan Motor Iberica has set great store by the launch this year of a four-wheel vehicle called Terrena II and of a people carrier vehicle named Serena.

Both the Japanese subsidiary's products are aimed at fast-growing niche markets and the Terrena II will have the added boost of a joint marketing effort that will involve Ford's pan-European distribution networks.

Car manufacturers in Spain, as elsewhere, are nevertheless taking no chances. Across the board, the companies are placing production lines on short time to cut down on stocks, reducing their labour force and negotiating hard to force unions to moderate wage increases.

Indicative of the new mood of austerity was Seat's decision this year to freeze executive salaries until further notice.

Tom Burns

## ■ CENTRAL AND EASTERN EUROPE

## Main players happy

Fiat, Volkswagen-Audi and GM are the main contenders

**S**UBSTANTIAL foreign investment in new or modernised car plants is becoming a powerful stimulus to economic growth in central and eastern Europe. It is helping economies adapt to meet the real needs of consumers rather than the priorities of planners.

The build-up in production volumes from Fiat in Poland, Volkswagen-controlled Skoda Automobilova in the Czech republic and, on a lesser scale, General Motors and Suzuki in Hungary is helping to compensate for the decline in output from the steel, heavy engineering and arms industries which were the mainstays of the old economies.

As in the UK, where heavy inward investment by the big Japanese car companies is helping to reverse decades of industrial decline, central Europe is gaining export-oriented plants whose demand for components has spawned rapid collateral growth in components manufacture.

Central Europe is becoming both a significant player in the European car industry *per se* and a fast-growing source of car components as western components makers follow the leading car producers with low-cost, locally-produced components and trim.

In some cases, companies such as Ford, which have decided against building assembly plants in the region, have opted instead to lower the overall cost of assembling vehicles in their existing west European plants by sourcing

components in this low cost region. Ford, for example, is sourcing many of its electrical components from a new \$100m plant south of Budapest.

The rising production of components is steadily improving the local content ratio of the Fiat Cinquecento, Skoda Favorit and other models coming off the assembly lines - and so maximising the advantage of low wage rates and high skill levels.

Over time, rapid economic growth will erode the wage-cost advantage which is currently the main attraction for the European and US multinationals. But higher incomes will raise purchasing power and unleash the potential of what is still a largely untapped market of 65m people in central Europe alone.

Significantly, Poland, with 39m people, has become the first of the post-communist states to recover from the steep initial restructuring recession. One of the forces behind recovery was a 32 per cent rise in car output last year as production of the new Cinquecento, mainly for export to Italy and other EC markets, soared from 5,500 in 1991 to 82,400.

This year, Cinquecento out-

put is building up towards the 240,000 capacity planned for mid-decade, while a new Fiat family car will roll off the production lines within the next two or three years. Limited assembly of the GM Astra model at the Warsaw FSO plant will further boost output.

A 29 per cent rise in output from Skoda Automobilova over the first quarter of 1993 reflects a similar pattern in the Czech republic which is also poised to resume overall economic growth in the second half of this year.

**S**koda Automobilova plans to double output to about 440,000 vehicles as Volkswagen seeks to repeat its success in revamping Seat in Spain and create a new generation of low-cost but well-engineered cars from its Czech plants.

In Hungary, output is also building up from the Magyar Suzuki plant at Esztergom, built on a former Soviet military base close to the Austrian border. But the first investment by Japanese industry in the region faces big problems. The recession and fierce competition in EC markets together with a stronger-than-

expected Hungarian forint, cultural problems with a local labour force reluctant to adapt to a Japanese-style work regime, and the impact of a strong yen on its imported components have all conspired to make life difficult for the company.

General Motors has also found that the unexpectedly rapid liberalisation of Hungary's foreign trade regime changed the assumptions upon which it based its original DM400m decision to build both a small Astra assembly plant and an engine factory at Szeged in western Hungary. The original plan was to earn hard currency from engine exports to other GM plants, to pay for the foreign exchange costs of the imported kits for Astra assembly in Hungary for the domestic market.

Intense competition in the still depressed Hungarian domestic market means that General Motors is now having to export Astras from its Hungarian plant which contain expensive imported components and are built in uneconomically low volumes. Despite the problems faced by earlier entrants, however, Hungary remains popular

among foreign investors.

Fiat and Volkswagen-Audi have emerged as the main European players in central Europe, with the French industry reduced to small kit assembly operations in Poland and the Romanian industry.

General Motors leads the American pack, seeing its scaled-down Astra assembly operation in Poland as a foothold in what is expected to be the fastest growing market in the region.

**T**he main players seem happy with their strategic moves into central Europe and are cautiously reviewing prospects further east where the future of economic reform remains clouded by political factors and the enduring power of the old communist nomenklatura in the big state-owned plants.

Significantly, however, car production has held up surprisingly well in the former Soviet states.

Last year, while industrial output generally fell by more than 18 per cent in Russia, car production fell by only 8.6 per cent, according to a study by Plancon Europe and DRI-McGraw-Hill.

Exports also performed well, even though the various Lada models now coming off the production lines for export have to compete head-on for hard currency sales both in the west and in the former Comecon states.

Anthony Robinson

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## THE EMERGING ASIA-PACIFIC Automotive Industry

Growth and Opportunities from South Korea to Turkey

MARK PAYNE

Published August 1993

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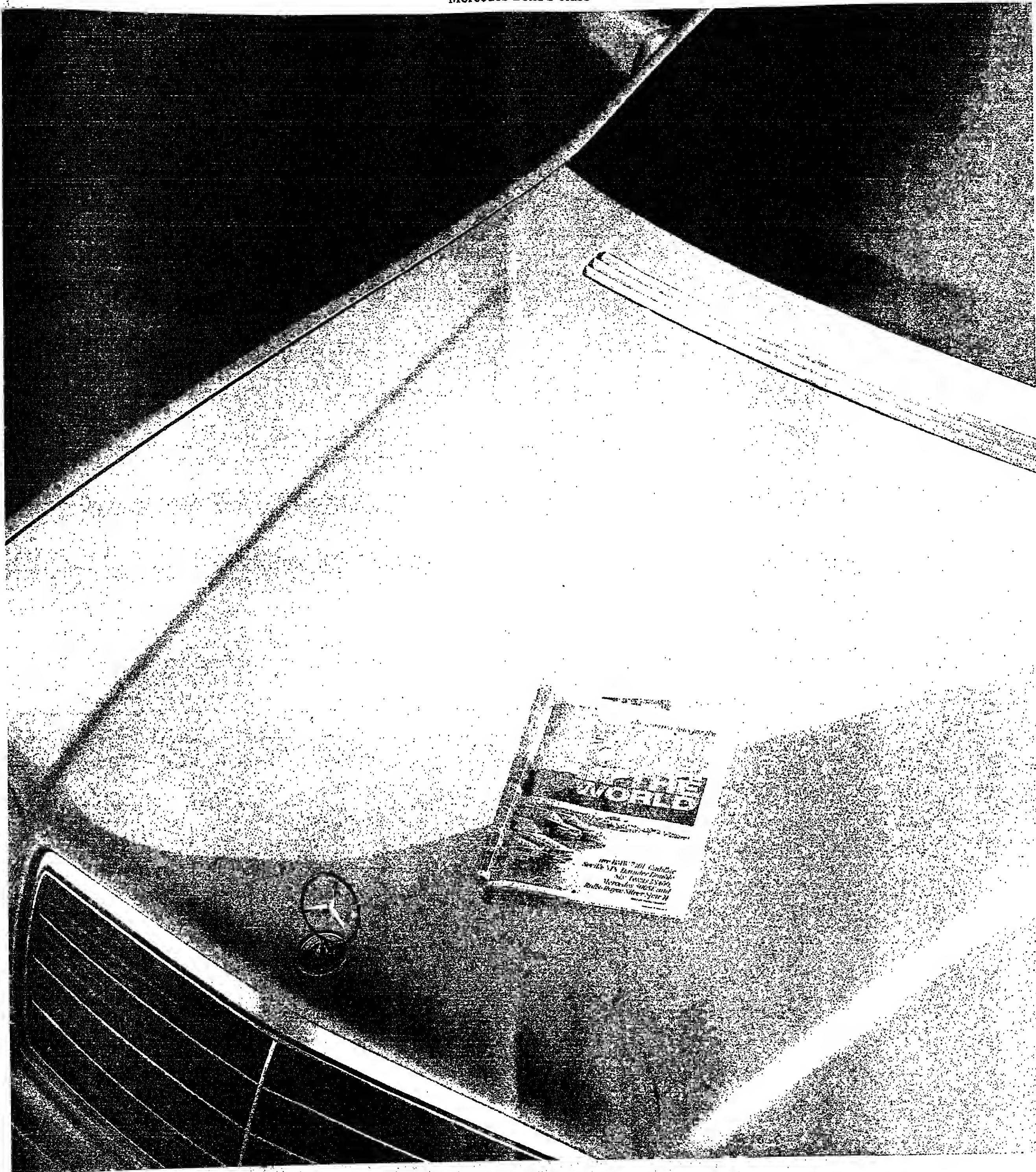
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The only thing we might add is that the range now starts with the new S280 at an unextravagant £37,500.



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\*Excludes delivery (£295 UK Mainland) and number plates. Prices correct at time of going to press. †Source: Autocar & Motor 5th May 1993. For more information phone (081) 554 8822 ext 1188 or write to Dept 1188, PO Box 151, London E15 2HF. Or contact your local dealer for a test drive. For Diplomatic and Tourist sales contact the Export Division, Mercedes-Benz (United Kingdom) Ltd., 78 Piccadilly, London W1V 0AQ or phone (071) 491 4918.

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## WORLD CAR INDUSTRY 13

## JAPAN

## Too quiet for comfort

A Mitsubishi Motors showroom in Tokyo, visitors last month were sent home with a gift bag full of vegetables. Not to be outdone, the nearby Nissan dealer was offering prospective customers a bag of firecrackers and a yo-yo.

Car dealers in Japan are having a quiet season. Last year, for the first time since the second world war, the Japanese car market experienced its second consecutive year of decline. The odds are increasing that the record will be extended to three consecutive years of decline unless the Japanese economy unexpectedly lifts itself out of its gloom.

In the first six months of this year, domestic demand for cars shrank 6.6 per cent, according to the Japan Automobile Manufacturers Association (Jama). After an early jump in sales in March - which proved a false warning, activity in the market has returned to the sluggish state that has become all too familiar in the past few years.

Although the Japanese government is holding firm on its forecast that the economy will see a gradual pickup towards the latter part of the fiscal year, the continuing weakness of personal consumption and private capital investment are

casting a dark shadow over that projection.

Mr Yoshifumi Tsuji, president of Nissan, admitted last month that, given the current state of the economy and the sharp rise of the yen, the company might have to revise downward its production target for the year.

The Japanese car industry's troubles are not restricted to the home market. Overseas, Japanese carmakers are coming under severe pressure as a result of the sharp advance of the yen's value against the dollar. One Japanese manufacturer after another has had to raise prices overseas, particularly in the US, to try to salvage what profits they can, as the yen continues its surge.

This has damaged their price advantage at a time when US manufacturers are increasingly challenging the competitive edge Japanese carmakers have had with their better-made cars. In the first three months of this year, the Japanese makers' share of the US market

slipped to 27 per cent from 30 per cent.

The political environment also makes it difficult for Japanese carmakers to seek to make up in exports the slack in domestic demand. As the Big Three US companies have brushed up their manufacturing, they have also stepped up political pressure to keep Japanese carmakers at bay, as well as force Japan to open its market more to US-made cars and car parts. They have tried to get the US government to impose higher tariffs on Japanese-made minivans by claiming that Japanese carmakers "dump" their vans in the US. At the same time they have increased political pressure on the Japanese auto industry to buy more foreign-made car parts.

In the EC, calls to curb the Japanese onslaught are no less intense. The European Commission is negotiating with the Japanese government to scale back an agreed target for Japanese car imports into the Com-

munity in 1993.

Hopes have been pinned on the Asian market. However, even exports to China (a growing market) have been reduced this year as a result of the adverse effect of the yen's appreciation and a tightening of monetary policy by the Chinese authorities intent on cooling down their economy.

The pressures facing the Japanese industry would have seemed less intractable were it not for the structural nature of many of the problems. The outlook for Japan's carmakers is now radically different from the years of strong growth, in the late 1980s, which led them to invest heavily in the latest production technology and expand rapidly abroad.

In contrast to those days, the industry is today gripped by the recognition that there is an overcapacity in the global car market. For example, in Japan at the end of March last year, according to Jama, 87.3 per cent of households owned a car. Against that background,

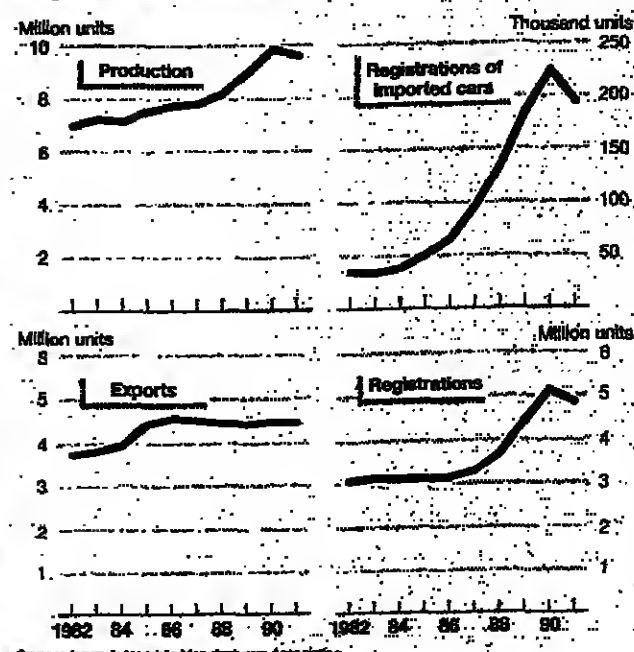
Mr Yoshihiro Wada, president of Mazda, expects growth in the industrialised world's car markets to be less than 1 per cent. Slower growth means that carmakers can no longer afford to supply a full range of models and compete with each other in every category. There needs to be a division of labour, Mr Wada says.

That is already beginning to happen in Japan. The high and rising costs of development are bringing Japanese rivals together.

Isuzu, a leading truck and commercial vehicle maker, is pulling out of passenger car production and buying cars from Honda. In exchange it is supplying Honda with recreational vehicles. Isuzu is also supplying Mazda with diesel engines. Meanwhile, Mazda and Nissan are negotiating about the possibility of swapping trucks and vans.

Although Japanese and US carmakers have been making cars together for years, the growing links in the domestic

## Japan: car trends



market - where rivalries are fierce - reflect the heightened sense of urgency within the industry. The trend is likely to accelerate further. The urgent need to address environmental issues, to raise fuel efficiency and improve safety measures all require that carmakers bring their resources together, says Mr Junji Shibata, general manager of the European and North American Operations Group at Nissan.

will have to tackle in the future is how to maintain individuality within these alliances," says Mr Taizo Yokoyama, managing director of Mitsubishi Motors.

In the meantime, the Japanese industry is focusing its efforts on readjusting operations to suit the changed market environment. Carmakers are increasingly standardising parts in an effort to cut costs and develop cheaper cars that will cater to the more cost-conscious Japanese consumer.

But perhaps the greater challenge for Japanese carmakers lies in adjusting to a market that is already mature. Nissan shocked the nation when it announced earlier this year that it was closing a plant in the outskirts of Tokyo. Others may be forced to take similar measures to deal with their overcapacity. Mazda and Toyota, for example, built up considerable capacity in the boom years of the late 1980s.

While plant closures and redundancies have a high social cost in Japan, the Japanese car industry probably has little choice but to shrink - unless new demand can be tapped in outside markets.

Michio Nakamoto

## SOUTH-EAST ASIA

## An important force

THE south-east Asian region, encompassing South Korea, Taiwan and the Asian block, has become an important force within the global automotive industry, and is providing the world's vehicle and components manufacturers with some of the strongest growth rates and most substantial business opportunities to be found anywhere in the world.

During the 1990s the current boom in vehicle output is set to continue apace in the wake of rapidly-growing local demand and the development by a number of companies of important export markets. From a total output across the region of 2.9m vehicles in 1992 (1.9m passenger cars and 1m commercial vehicles) production is expected to increase substantially into the early years of the next century and beyond.

The recently-published Financial Times Management Report, *The Emerging Asia-Pacific Automotive Industry: Growth and Opportunities from South Korea to Turkey*, which examines this sector in some depth, is, for example, forecasting that by the year 2002 some 4.6m passenger cars and 2.8m commercial vehicles a year could be produced in South Korea, Taiwan, Thai-

land, Malaysia, Indonesia and the Philippines.

According to this report, particularly strong growth is identified as likely in the automotive industries of Taiwan, Thailand and the Philippines (in the latter country from a very small base level of a few tens of thousands of units) for the 10-year period up to the year 2002.

Growth in South Korean vehicle manufacturing is also likely to be substantial over the next decade - especially if plans by one or more participants in that industry for the establishment of overseas plants come to fruition.

Vietnam, which is expected to enjoy rapid economic growth in the foreseeable future, is also expected to emerge as a producer. So far, the motor vehicle industries of Taiwan and the Asian block have been largely dominated by Japanese multinationals, although opportunities have existed for American and European automakers, and will, indeed, continue to present themselves over the coming years.

Of Taiwan's current tally of 10 vehicle manufacturers in early 1993, eight assemble Japanese makes and three Ameri-

can or European models. One company, Yeu Tyan Machinery Manufacturing, assembles both Daihatsu and Peugeot vehicles. Despite heavy Japanese involvement in the Taiwanese automotive industry, however, Ford has managed to develop the leading position within this sector.

In 1992, the Ford Lio Ho Motor Company, in which Ford Motor Company has a majority shareholding, accounted for

In Thailand, several makes of European vehicles are assembled

more than a quarter of total vehicle output in Taiwan, and is planning an increase in production in the 1990s. Another western opportunity in Taiwan is in the process of being realised: Volkswagen vans are to be produced by the Ching Chung Motor Company from late 1993.

In Thailand, several makes of European vehicles are assembled in modest quantities by local companies, although General Motors is thought to be considering the re-commencement of assembly operations in conjunction with the Bangchan General Assem-

bly Company. GM withdrew in 1978 from assembly in that country. The excellent potential of the Thai motor vehicle market could lead several other western carmakers to re-evaluate opportunities.

As in Thailand, the Malaysian motor vehicle assembly sector is almost totally dominated by Japanese models, although seven European makes of passenger car, and one American, were assembled in 1992 in very low quantities. Several other such operations are currently either starting up or planned. In addition, the official first and second national car projects involve respectively Mitsubishi and Daihatsu - although it is not inconceivable that an opportunity for a western luxury car manufacturer could present itself at some stage in the future, should a third national car project ever be formulated.

The position in Indonesia is little different from that in Thailand and Malaysia, although General Motors has been negotiating with two local companies for the establishment of further vehicle assembly agreements. Within the small vehicle assembly industry of the Philippines, Mercedes-Benz in March 1993 received approval from the Board of Investments for the assembly of two models by the Commercial Motors Corporation under the newly-opened luxury car category of the car development programme.

Mark Payne

## SOUTH KOREA

## Cheaper won helps exports

SOUTH KOREA'S car industry is once again enjoying an export boom after several years of lagging sales abroad.

The rapid improvement is largely a due to increased price competitiveness resulting from a cheaper Korean won, which has fallen by almost 20 per cent against the Japanese yen since the beginning of the year.

Car exports during the first eight months of 1993 rose by 37 per cent to 336,000 vehicles and would have been still higher if a series of strikes between May and July had not disrupted production at Hyundai Motor, the country's largest carmaker and biggest motor exporter.

There is growing optimism that exports may reach 560,000 vehicles this year, close to the previous export peak of 576,000 units in 1988.

Exports have slumped during the past four years as the appreciation of the won and higher labour costs have pushed the price of Korean cars higher. Complaints about product quality in the late 1980s contributed to a big fall in sales in the US, the main export market.

The drop in exports underscored the Korean carmakers' overwhelming dependency on the North American market - which accounted for 80 per cent of foreign sales in 1988 - and convinced them to diversify their markets abroad.

North America remains the single largest overseas market, but its share of total foreign sales has fallen to 28 per cent this year.

The Asia Pacific region has recently emerged as the second largest market, with a 26 per cent share, with China buying large numbers of Korean cars. But China's recently imposed ban on car imports to slow consumer spending has provoked worries that sales there may fall sharply.

The biggest disappointment has been Europe. Hyundai in particular has concentrated on expansion in Europe during the past few years and the

region overtook the US last year as the company's biggest export market.

The recession caused Korean car sales in Europe to fall by 9.4 per cent this year, and reduced the region's share of exports to 23 per cent, against a 14.3 per cent increase for North America and a 96.9 per cent jump in Asia.

The general improvement in exports is encouraging news for Kia Motor and Daewoo Motor, Korea's second- and third-largest carmakers respectively, as they try to challenge Hyundai's dominance in foreign markets. Hyundai normally accounts for two-thirds of Korean car exports.

Until recently, both Kia and Daewoo have largely relied on supplying cars to other compa-

Daewoo is initially concentrating on sales in the developing world. It also plans to expand into the US and Europe

nies on an OEM (original equipment manufacturer) basis for most of their exports. Kia produces the Fiesta for Ford, while Daewoo manufactures the LeMans for General Motors (GM).

But the two are now venturing into foreign markets on their own. Kia is establishing an independent sales network in the US and recruiting local dealers in Europe.

Daewoo, which ended its joint venture with GM last year in order to free itself from restrictions on overseas marketing activity, is initially concentrating on sales in the developing world. It plans to expand into the US and Europe once the GM-imposed marketing restrictions lapse next year.

The two companies are also setting up factories, mainly in Asia and the Middle East, to assemble cars supplied in knock-down kit form.

The sharp rise in exports comes at an opportune

moment for the Korean car industry, which is confronting tougher market conditions at home.

Domestic sales, which account for almost 75 per cent of total Korean motor sales, grew by 10.5 per cent during the first seven months of 1993 - much slower than the average annual rate of 40 per cent registered over the past six years.

As the economy stumbles, consumer confidence has weakened. Carmakers are speeding more on marketing and sales efforts to reverse the downward trend, while offering consumers generous financing terms that are placing further pressure on profit margins.

The strikes affecting Hyundai, however, have benefited Kia and Daewoo, with both reporting higher sales during the first half of the year. Kia posted a 48 per cent rise in net profits to Won5.2bn (\$4.3m) while Hyundai's net profits tumbled by 41 per cent to Won15.4bn.

While the Big Three car producers are engaged in fierce competition in the compact and medium-size car segments, other companies associated with them have been successful in developing specialised niches, particularly in mini-cars and four wheel drive jeeps. These are the fastest-growing areas of the Korean motor market.

Daewoo Shipbuilding began producing mini-cars in 1991. Its success is encouraging Hyundai Precision to enter the market at the end of year, using technology supplied by Mitsubishi of Japan. Kia is also considering producing mini-cars. Hyundai Precision, which also manufactures containers and tanks, began production of jeeps in 1991. Its Galloper jeep has cut into the sales of Ssangyong Motor, which is Korea's biggest jeep producer.

Ssangyong, which suffered losses of Won8.8bn last year because of the challenges posed by Hyundai Precision, has

responded by diversifying into passenger cars.

Earlier this year, it signed an agreement with Mercedes-Benz to begin production of a new range of medium and luxury cars in 1995.

The luxury car segment is rapidly becoming an area of competition among Korean carmakers. Hyundai and Kia already produce luxury car models and Daewoo is expected to join the field by the end of the year with a domestic version of Honda's Legend.

The passenger vehicle market is in danger of becoming even more crowded with Samsung indicating that it wants to manufacture cars within the next few years.

Although some analysts question whether Korea can support nine manufacturers of cars and commercial vehicles, the expansion is being encouraged by the government.

Under its X-5 programme, the government is planning to make Korea one of the world's five biggest vehicle manufacturers by 2000. Korea is already the seventh-largest in terms of production, with 1.73m vehicles manufactured last year.

The government estimates that it will cost \$66bn to implement the X-5 programme, with 90 per cent of this devoted to factory expansion and the remainder consisting of research spending in such areas as electric cars. The programme is largely funded by soft state loans.

"It's nuts," said one Seoul-based western industry consultant. "The danger is that Korea is heading toward excessive production capacity."

"It may soon find its Asian market weakening as China builds its own cars. Sales at home could also stagnate because the nation's roads are becoming clogged with traffic and it may not be able to handle much more."

John Burton



Kia's Sephia-Mentor: South Korea's Kia Motors has announced a joint venture for the assembly of passenger cars and components in Yanji City

## CHINA

## Trickle turns into a torrent

THE Chinese motor vehicle market and industry is currently one of the world's most dynamic automotive sectors. During the 1980s, several Chinese companies concluded licensing agreements with foreign vehicle manufacturers for the local assembly of selected models.

Joint ventures with foreign companies also began to make their appearance in a trickle of deals which has recently turned into a torrent. There has been what has, at times, looked almost like a rush by western vehicle manufacturers to put down a marker in the rapidly-growing (and potentially very rich) Chinese market for all types of vehicles.

The Chinese government has welcomed this process, with Mr Li Peng, the Chinese premier, citing vehicle manufacturing as one of the four central pillars of Chinese industry. Technology transfer is actively sought; China is eager to learn from the expertise of the world's vehicle multinationals.

The sector is very highly fragmented, with a large number of relatively small-scale operations likely to characterise the industry for the 1990s. This situation will surely start to change early in the next century, however, given the strength of the vehicle market where growth prospects seem virtually limitless. An equally important influence is the rapid growth of the Chinese economy and the liberalisation of economic and certain politi-

cal attitudes, for example towards the creation of wealth and the personal ownership of the means of production.

Not only will larger-scale vehicle manufacturing plants probably start to make their appearance in strength, but it is probable China will seek - either through the state or private-sector interests - to develop a truly indigenous motor vehicle design and manufacturing industry.

Throughout the 1990s, the sector will concentrate on boosting output, improving efficiency and profitability, raising economies of scale and upgrading managerial and blue collar expertise and skills.

Comprehensive figures for the levels of vehicle production and sales for any year in China are extremely difficult to come by, with assessments based on individual company releases and on the information put out by the China National Automotive Industry Corporation (CNAIC).

Two things are clear, however. One is the rapid growth in passenger car and commercial vehicle production and sales in recent years. According to CNAIC, output last year reached 120,000 cars - excluding the Daihatsu Charade which is also assembled in China, and Beijing Jeep's aged 2020 four-wheel-drive vehicle - and 980,000 commercial vehicles. The other is that the sector will expand throughout the 1990s.

The recently published Financial Times management report, *The Emerging Asia-Pacific Automotive Industry: Growth and Opportunities from South Korea to Turkey*, which examines the industry in depth, is forecasting that Chinese output of passenger cars could rise to 1.9m units by 2002, and that of commercial vehicles to 1.6m units.

The potential size of the market explains the scramble since the start of the 1990s by western and Japanese vehicle manufacturers to establish or expand production, assembly or licensing business in China.

Germany's Volkswagen group is in the process of increasing its level of investment. It has entered into two important joint ventures. The first is the Shanghai-Volkswagen Automobile Company, which in early 1992 announced that it was to increase annual output substantially at its Shanghai facility by 1995. The second is the FAW-Volkswagen Automotive Company, which is constructing a plant in Jilin province, scheduled to come on stream by 1995.

The second-largest carmaker in China is France's PSA group, which has two joint ventures. The first is Guangzhou Peugeot which assembles the 505 to the south of China, and the second, SAW Citroën Ami, which in the autumn of 1992 began to assemble the Citroën ZX hatchback.

Among other European vehicle manufacturers, Mer-


cedes-Benz has interests in the commercial vehicle sector in China, while Italy's Iveco has a tie-up with Nanjing Motor for the production of light trucks.

Two of America's Big Three are building a strong presence. Chrysler has a shareholding in the Beijing Jeep Company, which manufactures the Cherokee four-wheel-drive vehicle. At the start of 1992 General Motors formed a joint venture with the Chinese van and light truck producer, Jinbei Automotive.

Most Japanese carmakers have already concluded joint ventures or technical assistance agreements in China. These ventures include Zhengzhou Nissan Automobile, the Hainan Mazda Motor and Stamping Company, the Jiangling-Isuzu Motors Company, the Changan Suzuki Automobile Company and the Shenyang Jinbei Passenger Vehicle Manufacturing Company, in which Toyota is to partnership with Brilliance China Automotive Holdings.

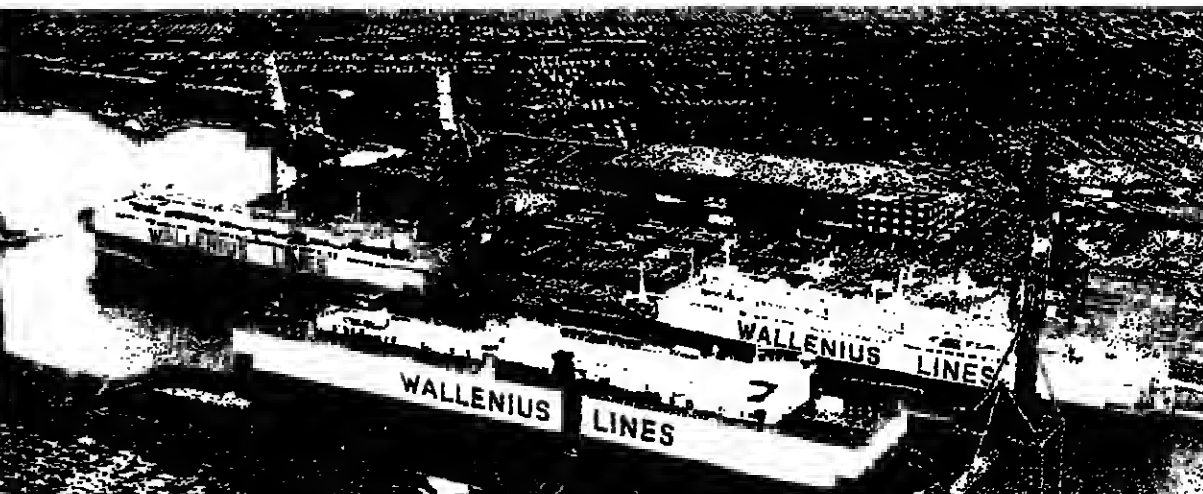
In addition, Daihatsu and Fuji Heavy Industries have technical assistance agreements with Chinese vehicle manufacturers. Other Asian vehicle producers are also eyeing opportunities in China. These include South Korea's Kia Motors, which has announced a joint venture for the assembly of passenger cars and components in Yanji City.

Mark Payne



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## WORLD CAR INDUSTRY 14



Audi's 'spaceframe' concept car is made mainly from aluminium using technology developed with the Aluminium Company of America (Alcoa).



Audi's top-of-the-range V8 sedan, based on the spaceframe concept, will set new standards because of its light weight.

## ■ MAGNESIUM vs ALUMINIUM

## Focus on weight reduction

**G**ETTING your retaliation in first is a well-tried battle tactic. Mercedes-Benz is aware how effective this can be – and therefore its latest shots in the increasingly hostile European car wars involved a pacesetter to magnesium metal.

Mercedes suggested that magnesium had big advantages over steel, aluminium and plastics for car producers needing to reduce the weight of vehicles. And certainly that is what producers are concentrating on today because weight reduction is the single most effective way to cut fuel consumption.

The German company's statement was obviously designed as a "spoiling" exercise ahead of an October Press briefing by its rival Audi, the up-market part of the Volkswagen group, extolling the virtues of aluminium in cars. Audi is soon to launch an "aluminium-intensive", top-of-the-range V8 saloon which it developed along with the Aluminium Company of America.

"This is our most important project," says Mr Franz-Joseph Körtum, Audi's chairman, of the DMLB venture. "We are trying for a second time for success in this segment of the car market and this is a great challenge for the company. But we will set new standards in this segment. We have changed

the rule that says the bigger and better the car, the heavier it must be.

"It is true that cars generally have improved enormously, but the weight has increased enormously, too." He says the new Audi will offer drivers "a new experience because of its light weight, stiffness and rigidity and safety." Many will find its performance and low fuel consumption astonishing, he predicts. "And this is

## Hydro this year started supplying aluminium space frames

because it is build of aluminium."

BMW also chipped in with the news that it has signed a co-operative agreement with Hydro Aluminium of Norway for the development of aluminium components – possibly even the production of complete "space frames," skeleton-like frames to which body panels can be fixed. But BMW said it had no plans for volume pro-

duction of an entire aluminium-intensive car such as Audi's.

Nevertheless, BMW's M-Technik offshoot is using an aluminium space frame in its prototype E1 electric vehicle for California. At the Geneva Motor Show this year, the group presented the Z13 concept "city car", which has an aluminium frame, recycled plastic panels, and a motor-cycle engine.

Hydro, part of Norsk Hydro, Norway's biggest industrial group, this year started supplying aluminium space frames from a Michigan factory for General Motors' new Corvette sports. It has also been co-operating on car space-frame concepts since the mid-1980s with various groups, including Renault in France, Porsche in Germany and Pininfarina in Italy.

Yet Mercedes intervention is a timely reminder that the automotive industry is interested in metals other than aluminium. And the automotive sector is expected to play a big role in magnesium's future.

According to Mining Jour-

It is almost certain that carmakers will employ both materials much more extensively in future, particularly in the US

nal's annual review, in 1991 there were nearly 40 magnesium components already in production for US and Canadian cars, compared with only one 10 years previously.

At the Institute de la Technologie du Magnésium, in Saint-Foy, Quebec, which specialises in contract research and development work, half the members are Japanese while the US automotive industry is represented by General Motors.

An average of 4.5lb of magnesium per car was used in North America in 1990 and the Cadillac North Star engine, launched last year, uses 15lb of the metal.

While this trend is particularly important for the use of magnesium in die-casting, extrusions are also set to become competitive and magnesium is already the choice

for a growing number of structural automotive uses such as road wheels, seat frames, housings and valve covers.

Although it is one of the lightest metals available for automotive design engineering, magnesium displays outstanding strength-to-weight and stiffness-to-weight ratios. Its proponents also say the metal has superior damping qualities to absorb noise and vibration and it is the easiest of all structural metals to machine. Mercedes commented on this aspect: "Magnesium has the advantage compared with aluminium in that it can be better processed in many ways and consequently can be cheaper in the end."

Mercedes pointed out that new high-purity alloying processes can offset magnesium's traditional disadvantages to a

carmaker – its relatively high price, poor corrosion resistance, low strength and inability to keep its shape in warm conditions. Magnesium alloys reach the required elasticity levels of up to 10 per cent without costly heat treatment, it added.

The group has been working with a foundry specialist on a new thin-wall pressure casting technique which allows a 40 per cent reduction in material thickness. This "opens up a new spectrum of possibilities for the use of magnesium."

Mercedes has been using magnesium seat frames for its SL Roadster since 1989 and said it had "favourable experience" in using it in bodywork, too. But Mr Werner Heiss, of Mercedes' pre-development trials division, said it was unlikely the metal would be used for engine blocks in water-cooled engines.

"Consistent use" of magnesium could reduce a car's weight by 10 per cent, he said. Mercedes pointed out that it would not be difficult for the world to produce enough mag-

nesium, no matter how much the carmakers eventually required, and that the metal could easily be recycled.

Mercedes' attempt to place magnesium in competition with aluminium is a little puzzling given that its small concept car at the Frankfurt Show will be the Vision A93 which has a body, fuel tank and seat frames made of aluminium. And in many ways the metals complement one

## The Synthesis is 'a rolling test bed for new technologies'

another – a great deal of magnesium is already used in aluminium alloys.

It is almost certain that carmakers will employ both materials much more extensively in future, particularly in the US where they have to meet government-imposed fuel economy targets but the market shows customers do not want very small cars.

For example, Ford not so

long ago announced plans to install North America's first-ever car seat stanchions made of magnesium. Yet the US's second-largest vehicles group is also using more aluminium than the rest of the American motor industry combined – about 16m tonnes a year.

Mr Kenneth Kohrs, Ford's vice-president of car product development, has been standing up for the aluminium-intensive car. He revealed that Ford was testing a fleet of 20 Mercury Sable cars made mostly of aluminium as part of a \$25m effort to see whether volume production of an aluminium-intensive car was feasible. He said the experimental Sables each weighed 400lb less than an identical version made of steel.

Ford has also developed the Synthesis 2010, about the same size as the Sable but which achieves weight savings of about 1,000lb. The Synthesis, "a rolling test bed for new technologies," is powered by an aluminium, three-cylinder, two-stroke engine. Reynolds Metals, the second-largest US aluminium producer, and Alcan of Canada, the western world's second-largest aluminium producer, have both been working with Ford on its aluminium projects.

Kenneth Gooding

Good decisions here attract people to a car.

Good decisions here can help sell it.

While the look and feel of a car attracts buyers, increasingly the electronic features help sell one car over another. Potential customers might consider which cars in their price range have air

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engine controls and diagnostics. They check out the sound systems. Then they drive off in the car with the best value. Which is why we work with OEM's on these and all other automo-

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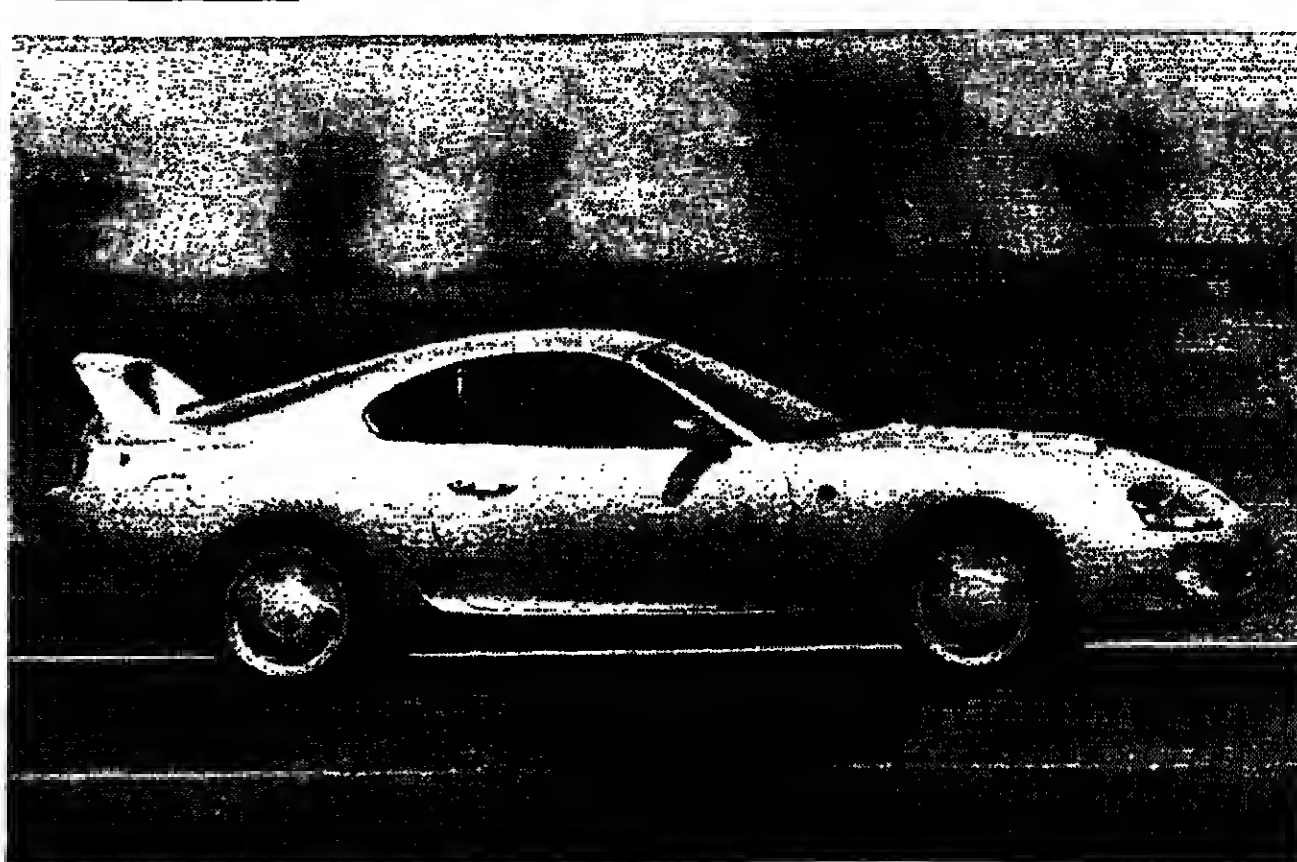
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## WORLD CAR INDUSTRY 15



Citroën's Xantia is proving to be a powerful challenger in the fleet market traditionally dominated by Ford and GM products



Toyota's new Supra proves that the superior is surprisingly resistant to the disapproval of the environmental-conservationist lobby

In an ideal world, all the new cars which will make their debut at Frankfurt and Tokyo motor shows would have been designed simply and solely as safe, economical personal transport making the minimum impact on the environment.

Some of them have - although they are mainly concept cars which may or may not go into production.

In the meantime, conventional cars with potential maximum speeds exploitable only at rare intervals on the de-restricted parts of Germany's autobahnen are alive and multiplying. The new Porsche 911 and Toyota's new Supra, which is capable of 190 mph (290 kph) but restricted to a more seemly 155 mph (250 kph), prove that the supercar is surprisingly resistant to the disapproval of the environmental-conservationist lobby.

To be sure, all 1994 models, be they European, American or Far Eastern, are safer than the cars they will replace. And the industry has been going to great lengths (and enormous expense) to minimise their environmental impact during manufacture, for the whole of their working lives and when they are finally scrapped.

Active safety has been enhanced by the anti-lock braking systems (ABS) which have become standard equipment on medium and higher priced cars. Traction control systems, using the same electronic sensors as ABS, are gradually being introduced. Permanently engaged four-wheel drive is available on a limited number of purely road-going cars for buyers who feel the need for maximum possible tyre grip for performance or safety reasons.

On the passive safety front, reinforcing bars are now fitted to the cheapest cars to limit intrusion into the passenger protecting cell in side-on accidents. Buyers of executive-class cars now expect driver-side airbags as standard equipment, with passenger-side airbags as not-too-expensive optional extras.

ProCon Ten, an ingeniously simple mechanical system which pulls forward the

All 1994 models are safer than the cars they will replace. The industry has also been trying to minimise their impact on the environment

steering wheel in an impact severe enough to displace the engine backward and simultaneously tightens the seat belts against driver and front passenger remains exclusive to Audi. There are signs that it will be abandoned in favour of airbags. The new VW Passat being launched at Frankfurt has them as standard for both front seat occupants. Impact-sensitive, self-tightening belts, however, are now common to most makes of car.

Inevitably, improving the driver's chances of preventing a hazardous situation from developing into a collision, and protecting a car's occupants better if the worst should happen, has its downside.

Making new models crash-safer has increased their weight and complication. To maintain or improve perfor-

mance, particularly acceleration and easy drivability in traffic, they are tending to have lower overall gearing, which does not help fuel consumption.

The potentially adverse effects of heavier construction and lower gearing on fuel consumption are being offset by improved electronic management systems for petrol engines and the wider adoption of fuel-efficient diesel - and particularly turbo-diesel - engines.

Volkswagen is showing at Frankfurt a management system which further improves the economy of diesel cars by shutting off the fuel supply and stopping the engine on downgrades. Saab's 900, its first new model since General Motors took a controlling interest, is to be available - initially

only in the turbo version - with a Sensonic automatic clutch.

This system is a half-way house. The driver still has to change gear with a conventional lever but there is no clutch pedal. Sensonic provides many of the advantages of a conventional torque-converter automatic transmission without any fuel consumption penalty. Eliminating the gear lever and shifting by buttons on the steering wheel is the next step.

There are signs at Frankfurt - and there will be signs at Tokyo - that a rash of really small cars is coming in the second half of this decade. New models will be nearer to the Fiat Cinquecento and Japanese microcars in overall size than existing small Europeans such as the British-made Nissan Micra, the Opel (Vauxhall)

Corsa, Renault Twingo and Rover 100 (Metro in UK). Corsa and Micra have proved that in terms of performance, ride comfort and general utility, the only thing distinguishing a really small car from a medium sized one is its bulk.

Mercedes-Benz, whose Vision A 33 design study is a Frankfurt talking point, speaks of growing demands by customers for cars of individuality and quality that will be suitable for use in crowded conurbations but still capable of longer journeys. BMW's 3.7 metre-long E1, designed for either battery-electric or petrol engine power, is similarly targeted. The Fiat Cinquecento, seemingly parkable anywhere, does not feel in the least out of its depth on a motorway; and it is on the market now.

Recognising that multi-cyl-

der buyers do not necessarily want a conventionally large car has led General Motors to offer a 2.5 V6 engine in its medium/large Opel Vectra (Vauxhall Cavalier), Calibra coupé and Saab 900. Especially when combined with automatic transmission, a small V6 is an appealing package, as Japanese producers like Mazda realised earlier on. Next year, Ford's successful Mondeo will go on sale with a US-made 2.5-litre V6 engine and automatic transmission.

The civilised benefits of air conditioning have already spread from luxury to executive cars. Now they are now beginning to reach the broad base of the European market, just as they did years ago in the US and Japan. At the same time, the convertible market is booming, with Peugeot launching its 306 and Volkswagen its new Golf soft-tops at Frankfurt and Saab promising a new 900 cabriolet by the spring of 1994.

Just as the BX propelled Citroën into the mainstream European car market in the early 1980s, the Xantia which has just succeeded the BX is proving a powerful challenger in the fleet market traditionally dominated by Ford and GM products. It is an outstanding car, widely tipped as a likely European Car of the Year 1994 contest winner. It combines a roomy though elegantly styled body with advanced self-levelling suspension and refined diesel and turbo-diesel engines.

In the luxury class, Rolls-Royce has squeezed more power from its venerable V8, while Mercedes-Benz, aware of a trend among business buyers away from very large cars with very large engines, has introduced a 2.8-litre, six-cylinder version of the S-Class.

Some versions of its new C-Class saloons, which have been aimed at younger than traditional Mercedes-Benz buyers, have the world's first four-valves-per-cylinder diesel engines. Although they have been on sale for some weeks in Europe, they are making their first show appearance at Frankfurt.

Stuart Marshall

## Conventional cars are multiplying

### NEW MODELS

Herbert G.



The slant-nosed Renault Espace seats up to seven, but takes up no more road or parking space than a Ford Mondeo

### MULTI-PURPOSE VEHICLES

## The logic is impeccable

THEY call them multi-purpose vehicles, or MPVs for short, and their numbers are growing fast because they are so practical. Buyers all over the world have found that MPVs are like dishwashers and home laun-

dries. Once you have acquired one you find it hard to believe you ever managed to live without it.

The logic behind the MPV is so impeccable it seems odd that cars were ever made car-

shaped instead of box-shaped. There is no better shape for a container to put things - or for that matter, people - in than a box. It combines maximum interior space with minimum external dimensions.

Could there be a better formula for a car to be driven and parked on increasingly crowded roads? Why should a car's engine stick out in front, as the horse did before mechanically propelled vehicles were invented?

Designing the "three-box" car (bonnet, body and boot) was really a retrograde step because the first horseless carriage had all the machinery underneath.

But the first MPV was re-engineered. The VW Microbus of over 40 years ago was a delivery van with three rows of seats and windows, powered by a hard-worked VW Beetle engine under the boot. It was incredibly successful, and so long lived that it has only been replaced within the last 10 years.

Since then, MPVs have largely left their commercial roots behind. They are now like cars to drive, even though some still look rather van-like, being essentially box-shaped.

Best known of the new generation of MPVs in Europe is the slant-nosed Renault Espace that resembles a French TGV (train grand vitesse).

It seats up to seven, but takes up no more road or parking space than a Ford Mondeo.

In a market segment that accounted for 1 per cent of total new car sales in Western Europe last year and is projected to grow to 2 per cent in

1996 and 3 per cent by 2001, the Espace continues to dominate. The 56,317 units sold last year (one in four of them turbo-diesel powered) accounted for exactly 50 per cent of the Euro-MPV market.

Next to Espace the most significant purpose-designed Euro-MPV, as distinct from a panel van conversion, is the Nissan Serena. It is made in Spain, where Nissan is half-way through a \$1.4bn, five-year investment programme running until 1996.

About 80 per cent of Serena's content is European. Current production capacity is 205 units per day and the line is 50 per cent automated. If demand rises, Nissan will install more robots to boost output.

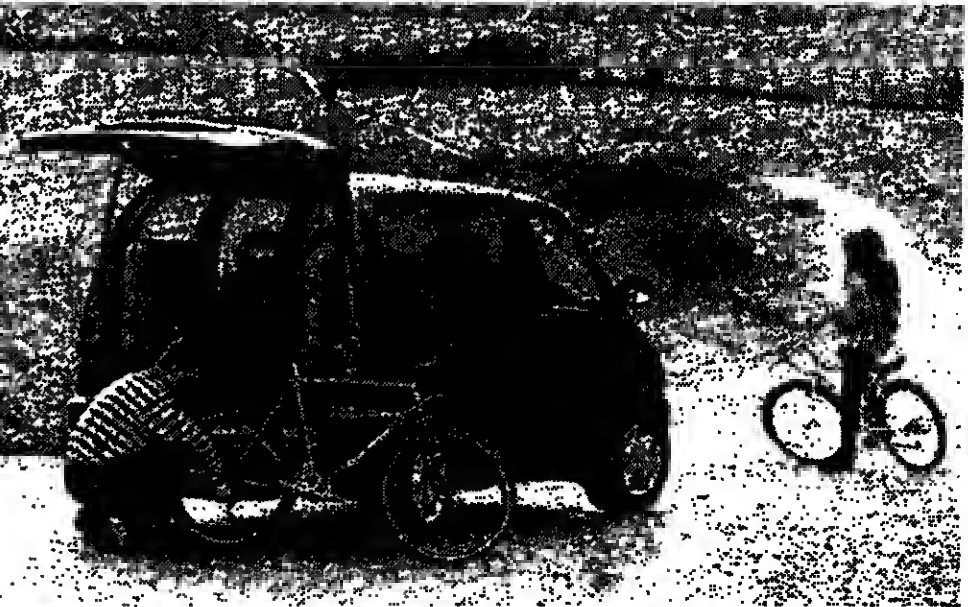
But Espace and Serena are only the tip of a European MPV iceberg. Next year, a vehicle jointly developed by Fiat and PSA and bearing a flattering resemblance to the Renault Espace will enter the market.

The year after, a co-operative venture by VW and Ford will result in production of a multi-purpose vehicle starting in Portugal.

Other European manufacturers with MPVs on the way include BMW and Mercedes-Benz; Volvo (a joint effort with its partner, Renault); and Opel. European producers appear to be contemplating a merging of function and identity between the currently popular on-off road 4x4 vehicles and MPVs.

Few on-off road 4x4 owners ever contemplate seriously driving across country - not least because it is difficult to find anywhere to do so without offending either the law or environmentalists, perhaps both.

Many of these 4x4s are bought to use as car alternatives by people who value their



The Nissan Serena is made in Spain, where Nissan is half-way through a \$1.4bn investment programme

high driving position, roominess and individual styling, and to whom sheer off-road capability has very low priority.

Some may well want enough additional traction to cope with snowy hills or crossing a muddy field but would not dream of driving over really rough terrain.

For them, the ideal vehicle would be a tall MPV with four-wheel drive - such as the Renault Espace Quadra or the Mitsubishi 4x4 Space Wagon. The current boom in sales of 4x4s designed specifically as off-road vehicles could run out of steam in the next few years, as manufacturers introduce on-road MPVs with either selectable or full-time four wheel drive.

Japan has a number of MPVs in production, although not all of them come to Europe. One that does come is the Toyota Previa, a purpose-designed

MPV which succeeded the original panel van-based Space Cruiser. Previa is a little bigger overall than the Espace, seats up to eight people and has a 2.4-litre, 4-cylinder engine laid on its side and tucked away under the floor.

Although strikingly spacious, it is not so big and bulky as to be difficult to squeeze into a meter bay.

Although VW, beginning with the VW Microbus of the 1950s, is the ancestral home of the MPV, the US is where the concept has really taken off. There they are called minivans, although by European standards they are anything but mini-sized.

Nearly 4m units of Chrysler's Voyager mini-van (MPV) have been sold worldwide since its launch in 1983, about 500,000 of them in the 1993 model year just ending. It is the world's most popular MPV; for the last seven years it has held more

than 50 per cent of the mini-van market in the US.

Production of the Voyager began in Europe last year at the Eurostar plant in Austria operated by Chrysler in partnership with Steyr-Daimler-Puch AG. This year's scheduled output of 27,000 units is forecast to increase to 50,000 a year in 1994-95. In two years time a new model with sliding passenger doors on each side, instead of only one on the right hand side, will make the production of right-hand steering versions for the UK market commercially viable.

Ford's rival to the Chrysler Voyager is the Aerostar, launched in the US in mid-1985 and - a foretaste of things to come in the European MPV market - produced in two-wheel or four-wheel drive versions with 3-litre or 4-litre V6 engines.

Stuart Marshall

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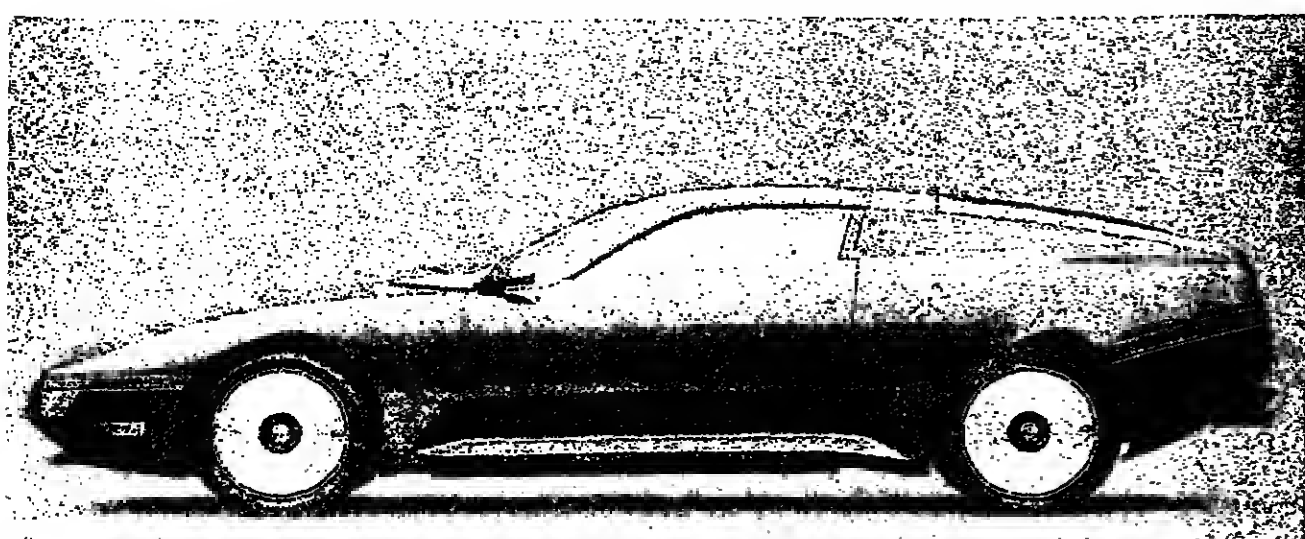
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## WORLD CAR INDUSTRY 16



Nissan's AP-X concept vehicle - the AP stands for Attractive Performer - aims to combine the excitement of a sports car with safety consciousness



The Nissan AQ-X concept saloon car - AQ stands for Ambition with Quality - aims for maximum comfort with minimum effect on the environment

## THE CAR OF THE FUTURE

## Age of the city car is about to dawn

FOR most of us, the name Mercedes-Benz evokes images of large luxury cars. Yet one of the most significant potential trends for cars of the future is that Mercedes will unveil a concept car smaller than a Ford Fiesta at the Frankfurt motor show this week, and that the ideas it incorporates will provide the basis for a production Mercedes of the late 1990s.

The age of the "city" car - small, light, miserly on fuel or alternatively using electrical energy - appears to be about to dawn in Europe.

The Twingo runabout from Renault, and the Polish-built Cinquecento from Fiat, have already given renewed momentum to the European market for very small cars - a market all but ignored during the economic boom years of the 1980s. (The sector is long-established in Japan, where there is a flourishing market for "micro-cars" specifically designed for urban use.)

Current cars, however, are equated with cheapness and utility. Mercedes' model, which in concept form is called the Vision A 33, should show, once and for all, whether the "city" car concept can be satisfactorily taken "up-market."

Rapidly increasing urban traffic congestion, concern about the pollution thus caused, and even the prospect of city centres being closed to all but electric cars or other very "clean" alternatives have been driving factors behind the development of the "Vision" - together with Mercedes' own

acknowledged need to find commercially attractive new market sectors.

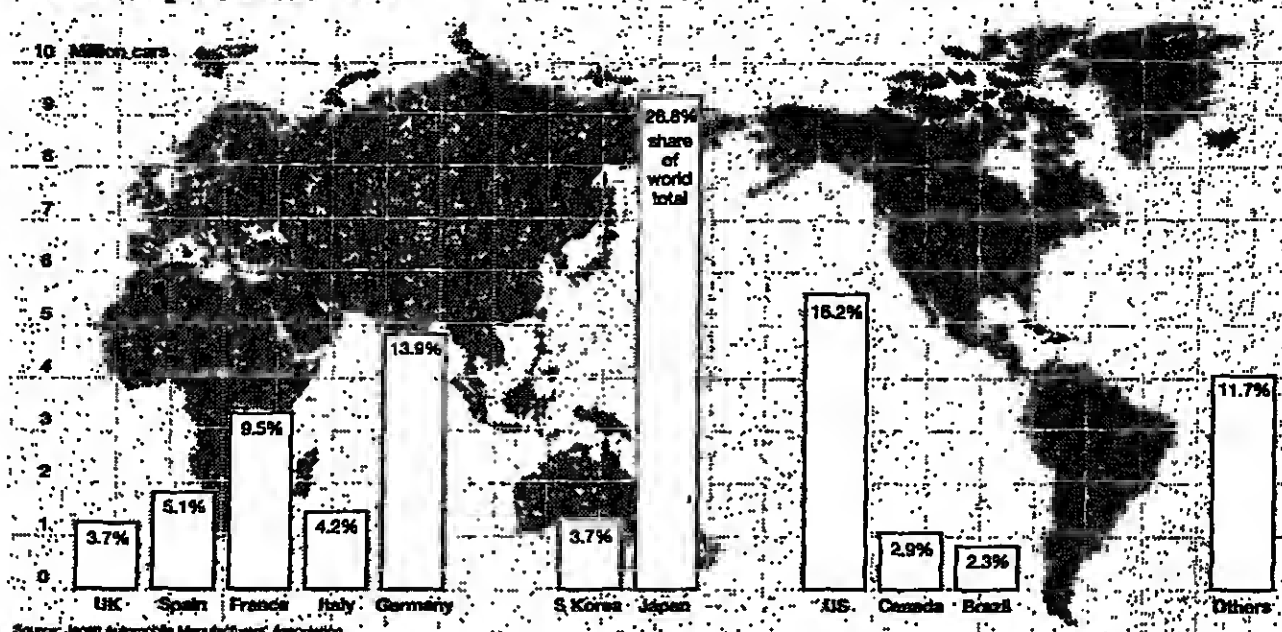
But Mercedes is not alone. BMW has produced a three-seater prototype of its own, the Z13. Volkswagen will start production of its city car, the Chico, in 1995, and many other manufacturers have similar projects in development.

BMW's Z13 is more obviously a "city only" car than the Mercedes. It has been designed and developed mainly for driver-only operation; it is powered by a 1.1 litre motorcycle engine mounted at the rear with a continuously variable automatic transmission. The driver is seated centrally, with two full-sized seats for possible passengers set back slightly on either side.

The Vision has been designed as a four-seater and is intended to be usable on longer journeys. With impact safety in mind, the engine - petrol, diesel or battery-powered electric - is located centrally under the passenger compartment.

Importantly, Mercedes claims that the petrol and diesel engines would both qualify as "ultra-low emissions vehicles" under California's draconian clean air regulations, and the electric version would qualify as a "zero emis-

World car production 1992



sions vehicle" (ZEV). Starting in 1998, California will require 2 per cent of a manufacturer's total car sales to be of ZEVs, rising to 10 per cent by the year 2010, if the manufacturer wants to go on selling its vehicles in California's 1m-plus annual new car market.

Both the BMW and the Mercedes models would have in common in their bodies the extensive use of aluminium, seeking the lightness needed for good fuel economy from small capacity power units, or in compensation for the weight of the air conditioning, mobile

telephones, navigation system and fax - all considered as possible *de rigueur* fittings for cars towards the end of the 1990s.

Not surprisingly, aluminium producers are watching these developments with the closest interest: it now looks increasingly likely that the material

will have a much expanded use in the car of the future.

Aluminium's attractions are obvious: it is extremely light and much easier and cheaper to shape than steel. On the other hand it is more easily damaged; it is more difficult to weld than steel; and it requires

a great deal of energy to produce, so it is a good deal more expensive.

In terms of total energy requirement, however, its exceptional capacity to be recycled works in its favour in the long term. Smaller, lighter engines, gearboxes, driveshafts and other mechanical components can be used.

So far, aluminium has provided the main bodywork only for expensive, limited production cars such as Aston Martin or Honda's NSX sports car. But the next substantive move towards wider adoption by vehicle manufacturers is imminent, within the next few months, with the launch by Audi of its replacement for the V8 saloon and which will have an aluminium chassis.

The car will mark the culmination of an 8-year collaborative project between Audi and Aluminium Company of America (Alcoa). It required not only the development of new alloys with the required crash protection properties, but also new production processes. The car will have a skeleton-like space-frame made up of about 100 robotically welded pressings - about one third the number required in a steel-bodied car.

The partners' faith in the future of aluminium for the

motor industry is such that Alcoa has built a \$70m facility at Soest, Germany, to make the spaceframes - and to offer its services to other vehicle makers. However, the material is not yet a candidate for cheaper, very high volume production cars; at present the process is cost-effective only for production runs of up to 100,000 cars a year.

But the revival of interest in aluminium is causing a certain amount of wariness at some large chemical groups such as Dow and DuPont, which have large plastic composites interests. For much of the 1980s it appeared that plastic composites could emerge as stronger, non-rusting rivals to metal for the load bearing main structure of a car. Complexity and recycling difficulties make this a more distant prospect, although the use of plastics continues to increase steadily in other non-stress bearing applications.

With or without aluminium, "downsizing" of cars is occurring across most vehicle sectors as sophisticated computer aided design and manufacturing systems allow much better packaging of mechanical components, thus leaving more room for occupants.

Mercedes is even investigating ways of making its top-range "S" class models appear smaller, following criticisms in some sections of the press that it seems too much of an environmentally-unfriendly leviathan.

John Griffiths

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## WORLD CAR INDUSTRY

Thursday September 9 1993



BMW's latest concept for a small car, the E1, is a two-door, four seater with electric, petrol or hybrid engines



The Mercedes-Benz Vision A 93 concept car features an aluminium body and a choice of diesel, petrol or electric engines

## A fierce fight for survival

The recession has exposed severe problems within the world car industry. In the battle to restructure there will be casualties. Kevin Done reports

THE tables are being turned with a vengeance in the world motor industry. After several years of intense pain, the big three US carmakers have returned from losses, earning \$2.3bn of net profit in the second quarter of this year alone.

Now, it is the Japanese and European vehicle makers who are on the rack. As sales fall, the losses are mounting. Nissan is in loss in Japan, as is Volkswagen in Europe.

The fortunes of the US carmakers are improving as part of the gradual recovery in the US economy, but the US auto industry turnaround is more than merely a cyclical recovery.

There is a new air of confidence in Detroit as General Motors, Ford and Chrysler sense that a watershed has been reached in their battle to restructure and to contain the advances of the previously all-conquering Japanese vehicle makers.

Under heavy pressure from the rising value of the yen, Japanese producers are being forced to raise their prices in the US much faster than their American rivals. After a number of years in retreat US carmakers are stemming the tide - at least for the moment - and it is their Japanese rivals who are now being forced to cede market share in North America.

Symbolic of the changing order,

the Ford Taurus last year ousted the Honda Accord from the position it had held for three years as the best-selling car in the US. The share of Japanese makes in the US car and light truck market fell in 1992 to 24.3 per cent from 25.7 per cent a year earlier. In the first seven months this year the Japanese share dropped away further to 22.3 per cent.

The US vehicle makers have benefited in particular from the growing popularity of light trucks - pickups, mini-vans and sport/utility vehicles - which increasingly are replacing saloon cars for passenger use. The big three dominate the US light truck market, where sales have jumped by 18 per cent in the first seven months this year, compared with a rise of only three per cent in new car sales.

The return to health of the US industry - signalled most emphatically by the transformation of Chrysler's fortunes, whose share price has

jumped fivefold in the last 18 months - is still far from complete, however.

The big three carmakers face a difficult round of labour negotiations this autumn, and General Motors, the wounded giant of the world auto industry, is barely out of intensive care. After three turbulent years, GM's North American automotive operations were still in the red in the first half of 1993 incurring a loss of \$369m, although Mr Jack Smith, GM chief executive, insists that the business can meet its target of a \$4.5bn turnaround by breaking even at an operating level in the full year.

Japanese carmakers, under pressure in North America, are facing, too, an unprecedented third successive annual decline in new car demand in their domestic fastness, where imports still account for only four per cent of the market. New car registrations in Japan this year are forecast to be 18 per cent lower than in the peak year of 1990.

Several Japanese carmakers have

fallen into loss, most notably Nissan, the country's second largest vehicle producer, and Mazda. Toyota, the world's richest carmaker and leader of the Japanese industry, has suffered three years of falling profits and a further decline is expected this year. Honda's pre-tax profits in the three months from April to June fell by 55 per cent.

The Japanese industry is being forced to restructure at a time when it is burdened by high fixed costs and high depreciation, following recent years of heavy capital expenditure and the building of new assembly capacity in Japan. It no longer enjoys the advantages it had in earlier years of an undervalued yen and cheap money. Plant closures are being forced, and Nissan's drastic move to shut its Zama car plant in 1995 is unlikely to be the last.

In contrast with the dramatic proliferation of new products at the end of the 1980s, Japanese carmakers are now having to cut the number of

model variants and types of options offered, which in recent years have "proliferated excessively" according to Mr Yoshitomi Tsuji, president of Nissan.

They are seeking to use more common parts among different car models, and some are also planning to extend product life cycles - previously regarded as one of the Japanese industry's key advantages over European and US car makers.

Japanese vehicle makers are also being forced to make up for weaknesses in their product armouries by marketing cars or niche vehicles from rival makers under their own badges rather than trying to develop competing products themselves.

Loss-making Isuzu has pulled out of carmaking altogether in order to concentrate on four-wheel-drive leisure utility vehicles and trucks. Instead it will market a range of Honda cars under its badge in Japan, while Honda is planning to sell Isuzu leisure/utility vehicles

under the Honda badge both in the US and in Japan. Honda also plans to sell in Japan the Rover group's UK-built Land Rover Discovery four-wheel-drive vehicle under the Honda name. Nissan and Mazda are exchanging light commercial vehicles in Japan.

The spate of deals to share both vehicles and components appears to presage a more far-reaching restructuring of the Japanese motor industry, as some of the smaller makers are absorbed into the bigger groups, as has happened already in Europe.

According to Mr Tsuji the Japanese motor industry "may now be at a structural crossroads". The rapid appreciation of the yen would appear to favour a further transfer of production abroad, but Mr Tsuji has voiced the fear that such a move could entail a "hollowing out" of industrial operations in Japan. He has warned that "the global motor industry is facing a business climate of unprecedented severity."

The Japanese vehicle makers continue, too, to face acute trade pressures as the US pushes to reduce its huge deficit in automotive trade with Japan, and the European Community seeks to restrain the volume of vehicles imported from Japan in the face of plunging new car demand in Europe.

Continued on Page 2

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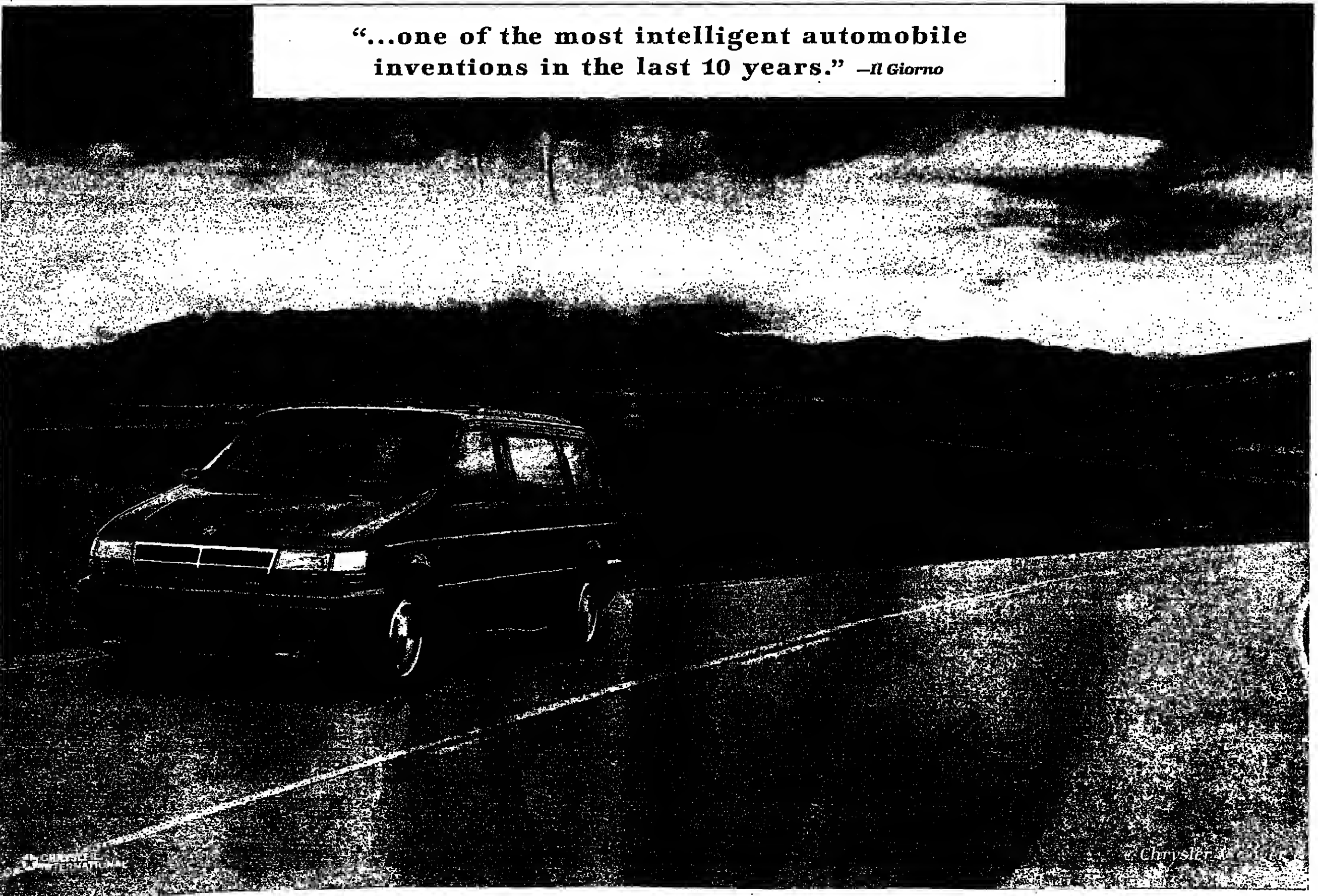
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"...one of the most intelligent automobile inventions in the last 10 years." -*Il Giorno*



Chrysler



## WORLD CAR INDUSTRY 2

## SALES FORECASTS

## Decade of structural change predicted

NEW car sales worldwide are expected to contract by 3.0 per cent to 33.02m this year, the second significant decline in the last three years under the impact of sharply falling demand in west Europe and in Japan.

Global sales are forecast to recover next year, however, with a 5.4 per cent rise to 34.5m. Continuing steady growth in the following years is expected to take worldwide new car sales to 41.3m by 1998 according to the latest World Automotive Forecast report by DRI, the UK-based automotive analysts.

Worldwide new car sales were virtually unchanged last year at 34.16m after peaking at 35.01m in 1990. Sales fell by 0.3 per cent in 1991 to 33.9.

Much of the growth next year is forecast to come from North America, Asia and east Europe. Car sales are already recovering in North America this year with an increase of 4 per cent to 9.56m forecast to be followed by a further rise of 6.1 per cent in 1994.

The strongest growth worldwide is expected to come from outside the leading traditional car-consuming regions of west Europe, North America and Japan, however.

While the DRI report forecasts a 21 per cent increase in global car demand from 1992 to 1998, the main impetus for this growth is expected to come from South Korea, China, Thailand, Latin America and east Europe during the rest of the decade.

"The 1990s are expected to be a decade of structural changes in the pattern of global car sales towards newly developing markets," says DRI. The US is already a mature market where new car sales are increasingly a function of replacement demand, and the same will be true of west Europe by the end of the decade.

The DRI report claims that the best prospects are in Asia-Pacific, where the density of car ownership is still low, and

WORLD CAR SALES FORECAST (000s)					
	1992	1993	1994	1995	1996
WORLD TOTAL	34,050	33,015	34,503	36,467	38,521
West Europe total	13,494	11,254	11,256	12,459	13,289
EC total	12,607	10,542	10,886	11,596	12,405
Germany	3,929	3,063	3,001	3,128	3,310
Italy	2,374	1,866	1,795	1,932	2,052
France	2,105	1,776	1,889	1,965	2,114
UK	1,593	1,788	1,889	2,051	2,187
Spain	979	720	812	925	1,052
East Europe*	1,220	1,186	1,316	1,472	1,630
North America total	9,181	9,580	10,136	10,134	10,423
US	8,383	8,790	9,242	9,124	9,376
Japan	4,454	4,192	4,287	4,459	4,617
Asia Pacific total†	2,449	2,515	2,590	2,753	2,952
South Korea	830	929	1,016	1,098	1,116
China	321	488	520	576	726
Thailand	121	245	368	485	542
Latin America total	1,561	1,843	1,881	1,930	2,053

WORLD CAR PRODUCTION FORECAST (000s)					
	1992	1993	1994	1995	1996
WORLD TOTAL (net)*	34,749	33,637	35,263	36,991	38,116
West Europe total	13,376	11,385	11,773	12,632	13,711
EC total	13,061	11,104	11,453	12,282	13,361
Germany	4,855	3,736	3,680	3,794	4,046
France	3,325	2,850	2,869	3,037	3,251
Spain	1,790	1,531	1,645	1,845	1,988
Italy	1,478	1,168	1,318	1,451	1,587
UK	1,291	1,428	1,524	1,638	1,901
East Europe**	1,470	1,590	1,920	2,200	2,420
North America total	9,587	9,987	10,527	10,581	10,806
US	8,837	9,152	9,592	9,712	9,810
Japan	9,378	8,753	8,673	8,997	9,222
Asia Pacific total†	2,249	2,275	2,325	2,753	2,952
South Korea	1,242	1,456	1,751	1,909	2,065
China	171	263	369	487	646
Thailand	104	220	308	375	449
Latin America total	1,814	2,161	2,221	2,292	2,420

\*Excluding double counting.

†Including Commonwealth of Independent States.

Excludes Japan.

Source: DRI World Automotive Forecast Report - August 1993.

strong economic development is leading to rising disposable incomes.

New car sales in China more than doubled in 1992 to 321,000 from 145,000 in 1991, and sales are expected to triple in the next six years to reach 1.05m by 1998. A similar development is forecast for Thailand with sales jumping to 540,000 by 1998 from 121,000 last year and 66,000 in 1991.

Latin America and east Europe also offer good growth prospects, says the report. By the mid-1990s, the Latin America is expected to be more than 2m, nearly double the level of the mid-1990s.

As east Europe develops and

used car imports fall away, new car sales in the region are expected to grow by over 50 per cent in the next five years to 2m a year.

The Asia-Pacific region (excluding Japan) is also expected to be the main focus for growth in car production for the rest of the 1990s with output set to jump from 3.25m last year to 4.81m in 1998. China will account for a large part of the increase with production forecast to rise from 171,000 last year to 950,000 in 1998.

After falling steeply for the last three years, car output in east Europe is forecast to recover strongly for the rest of



Sweden's new 900 SE V6. The only new cars market in west Europe that is showing any growth is that of the UK, albeit from a very depressed level

the 1990s with production increasing from the low point of 1.47m last year to reach 2.65m by 1998.

The growth in newly developing markets has been unable to compensate in recent years, however, for the downturn in demand in the main industrial countries. The long upward trend in worldwide new car sales, which peaked at the end of the 1980s and the beginning of the 1990s first by the fall of demand in the North American market and then by declining sales in Japan and now in west Europe.

West European new car sales are forecast to fall by 16 per cent this year to 11.3m from 13.5m in 1992. The outlook for next year is also gloomy with the prospect of only a minimal recovery.

The decline in west Europe in 1993 will be steeper than during the recession following the first oil crisis in the early 1970s. Sales in Germany, the single largest market in Europe, are forecast to plunge by 22 per cent, with demand expected to fall by 21 per cent in Italy, 20 per cent in Spain and 16 per cent in France.

The only market in west Europe that is showing any growth is the UK, albeit from a very depressed level after three years of recession, with sales forecast to rise to 1.77m from 1.59m in 1992.

There is little prospect of any sustained recovery in 1994 with sales in west Europe forecast to rise by only 2.9 per cent next year to 11.66m. Modest increases in demand in the UK, France and Spain are expected

to be offset by further small declines in Germany and Italy. West European car production is set to fall by 2m vehicles or 15 per cent this year to 11.4m from 13.4m in 1992, says the DRI report. Output is unlikely to regain the

**By 1998 Japanese car production in the UK is expected to reach 800,000 cars a year**

1989 peak of 13.7m until 1996 with the start of a stronger recovery delayed until 1995.

The UK is an exception, however, with output boosted by the development of the three Japanese car plants established by Nissan, Toyota and Honda. UK car production is

forecast to rise from 1.3m in 1992 to a record 2.1m in 1998.

By 1998 Japanese car production in the UK is expected to reach 800,000 cars a year - accounting for around 37 per cent of total British car output and allowing the UK to move from fifth to third place in the European production league ahead of Spain and Italy.

Japanese carmakers have fallen under unaccustomed pressure in their domestic market, where sales this year are suffering an unprecedented third successive annual decline. The DRI report forecasts a six per cent drop this year to 4.19m following declines of 8.5 per cent in 1992 and 4.6 per cent in 1991 from the peak of 5.1m cars sold in 1990.

Car production in Japan is

expected to fall this year by 6.7 per cent to 8.75m from 9.4m last year and the peak of 9.85m in 1990. The impact on production of weak domestic demand has been compounded by lower exports. Shipments from Japan are being affected by the increase in Japanese carmakers' overseas production in particular in North America and in Europe, and also by the weakness of demand in Europe.

The Japanese car industry is in the lead in taking advantage of growth elsewhere in the Asia-Pacific region, however, and shipments to other Asian countries, led by China and Thailand, are becoming much more important in terms of volume.

Japanese manufacturers "will generally be looking to increase output in locations outside of high-cost Japan, certainly as far as supplying exports markets is concerned," says DRI. "At the same time, domestic market demand will grow only modestly in the medium-term."

In the US, fragile consumer confidence continues to threaten the pace of recovery from recession, but car sales are rising again in 1993 after four years of decline. Car sales (excluding light trucks) are forecast to rise by around five per cent to 8.79m in 1993 but will still be nearly 3m units below the 1986 peak.

The US light passenger vehicle market has been marked more and more by the American fondness for light trucks, however, with four-wheel drive leisure/utility vehicles, mini-vans (known as multi-purpose vehicles or MPVs in Europe), and pickups increasingly substituting for family saloon cars.

US light truck sales are expected to jump by 14 per cent this year to 5.3m units, easily surpassing the previous peak of 4.6m in 1988. While annual car sales are forecast to rise by only 1.1m units from 1992 to 1998, light truck sales are predicted to jump by more than 1.4m in this period to exceed 6m by 1998.

**DRI World Automotive Forecast Report, DRI McGraw-Hill, Wimbledon Bridge House, 1 Harfield Road, London, SW19 3RU. Price £3,000.**

Kevin Done

## EUROPE IS THE MAIN BATTLEGROUND

## Fight for survival has never been so fierce

Continued from Page 1

Faced by the accelerating contraction of the west European market the established European producers have clamoured for intervention by Brussels to renegotiate Japanese import levels.

"The agreements between the European Community and Japan are not enough," said Mr John Hardiman, until last month chief executive of Ford of Germany. "We are deeply dissatisfied... We are demanding that Brussels sets Japanese export quotas exactly in line with the actual development of the market... You do not have to be a prophet to foresee that the goal of orderly adjustment and a far-reaching restructuring of the European auto industry cannot be reached by 1993."

The real challenge is not so much the Japanese imports, however, as local Japanese production in Europe, where Nissan, Toyota and Honda are already showing that they can reach Japanese levels of quality and efficiency with European (British) workforces, albeit in new plants and with new labour agreements.

In west Europe the plunge in new car demand has been precipitous. Carmakers are facing an even steeper decline in sales than occurred in the wake of the first oil crisis in the early 1970s. Sales across 17 markets in west Europe have fallen by an estimated 17.7 per cent in the first seven months of the

year with 1.5m fewer new cars sold than in the same period a year ago.

The most damaging falls have occurred in some of the biggest European markets with sales in the first seven months dropping year-on-year by 21 per cent in Germany, 24 per cent in Italy, 17 per cent in France and 28 per cent in Spain. Only the UK, of the larger markets, has achieved any growth, with sales rising by 9 per cent, albeit from a very depressed level after three years of recession.

Large parts of the European industry have been forced on to short-time working. The European auto industry's workforce is being drastically pruned, components suppliers are being squeezed harshly to cut prices, and as overcapacity grows, companies are being forced to rationalise and restructure.

In an uncanny reflection of the earlier fate of General Motors in the US, the Volkswagen group, the dominant leader of the European market, has crashed heavily into the red with a DML6bn loss in the first six months of 1993. Ford of Europe will run up a third consecutive annual loss this year,

Fiat's car and light commercial vehicle operations suffered an operating loss of L544bn (\$339m) last year and their financial performance has deteriorated further this year, while Renault's pre-tax profits plunged by almost 90 per cent in the first six months this year.

The fight for survival in the global car industry has never

**What started as a bizarre tug-of-war over the services of Mr Lopez has developed into a full-scale public battle**

been so fierce, and the tensions have broken the surface in unprecedented fashion in the ugly, bare-knuckle conflict between GM and VW over the US carmaker's allegations of industrial espionage and the theft of thousands of highly confidential documents during the departure of Mr José Ignacio Lopez de Arriortua, its former global purchasing director, to become Volkswagen's head of production and purchasing.

What started as a bizarre tug-of-war over the services of

Mr Lopez has developed into a full-scale public battle between two of the world's biggest industrial corporations, which still threatens unpredictable consequences both for Volkswagen and for Mr Lopez and Mr Ferdinand Piëch, the aggressive and autocratic former head of Audi, who took over as chief executive of the beleaguered VW group at the beginning of the year.

The Lopez saga, which has mesmerised the world auto industry, reached a fresh climax two weeks ago with the raid by police and German public prosecutors on the Volkswagen headquarters in Wolfsburg. VW has already admitted that GM documents have been shredded at one of its Wolfsburg premises. The espionage allegations are also being investigated by the US justice department.

The bitterness of the conflict between GM and VW has prompted interventions by German Chancellor Mr Helmut Kohl and German Economics Minister Mr Günter Rexrodt, in an effort to contain the damage - but to little avail.

Mr Piëch added fresh intensity to the conflict by accusing Opel, GM's German subsidiary

of mud-slinging and conducting an international war against VW and Germany. He suggested that GM/Opel may have hacked into VW's computers to plant secrets there. In return GM Europe has described the Piëch attacks as "grotesque" and said the VW chief executive's war-like words suggested a "psychosis-like bunker mentality."

Mr Piëch has claimed publicly that he is engaged in nothing less than a mission to save the European auto industry, and that Mr Lopez shares the same messianic vision. His burning determination to bring the Spanish engineer from GM to VW was not to be resisted.

The Lopez investigations are diverting top management attention from the central issue of rescuing VW from its uncomfortable position as the highest cost volume carmaker in Europe.

Mr Piëch has placed the blame for VW's precipitous collapse into loss firmly on the group's previous management, with the onset of recession blamed only in passing.

"The VW group's current difficulties can only be blamed in small part on the weakness of new car sales - and the same

is true for other German manufacturers," he says. "The real cause is much more the structural problems of the entire sector, which are now being openly exposed by the recession."

"We have to accept that in the eight years of boom we did not do our homework. Because as soon as sales fell we are in the red. Our task

**The heat is most intense in Germany, where vehicle makers were cushioned initially by a surge in sales**

for the coming years is to come to grips with this structural transformation."

"In eight years of boom we concentrated exclusively on expansion and we did not prepare for bad times. We should break even with our plants working at 70 per cent or less of capacity. We came into this crisis with a break-even level of around 100 per cent of capacity. From 1989 our sales volumes grew every year and our profits shrank every year."

Competitive pressures are being felt throughout the Euro-

pean auto industry as it moves uncomfortably through the seven-year transitional period to a west European car market, where all protection against Japanese imports is supposed to have been removed by the end of the decade. The heat is most intense in Germany, however, where vehicle makers were cushioned initially by the surge in sales that followed reunification. This delayed the start of restructuring.

The German automotive industry must shed a further 100,000 jobs and cut costs by between 20 and 30 per cent in the next two years Mr Achim Diekmann, chief executive of the German Automobile Federation, warned recently. German vehicle and component makers had already cut 95,000 jobs in the two years to the end of June, he said.

High costs in Germany have played an important role in decisions by both BMW and Mercedes-Benz to develop new plants for passenger vehicles in the US, and German components manufacturers are also increasingly moving capacity abroad.

In a stunning departure from corporate tradition Mercedes-Benz, the world's most presti-

gious luxury car maker, has embarked on "a very extensive realignment of its strategic product policy". Mr Helmut Werner, who took over as chief executive in May, admitted earlier this year that Mercedes-Benz's present luxury and executive cars were "over-engineered", and said that the company would end up being "priced-out" of world markets if it persisted with such a policy for developing new models.

As the battle in Europe to restructure and to become globally competitive intensifies, the industry faces the growing problem of overcapacity which is "a major strategic concern" for all carmakers in Europe according to Mr Jacques Nasser, chairman of Ford of Europe. Ford does not expect new car sales in west Europe to return to the trend level of 1990/91 until the late 1990s. "The potential for excess capacity in the mid to late 1990s will be around 7m units," Mr Nasser warned recently.

This amount of overcapacity would pose "severe structural problems" for the European auto industry, which would be compounded by a rising market share gained by Japanese carmakers. This "may result in continued losses or severely depressed profitability for many manufacturers."

As the Japanese build up their local production capacity Europe has become the main battleground in the world auto industry.

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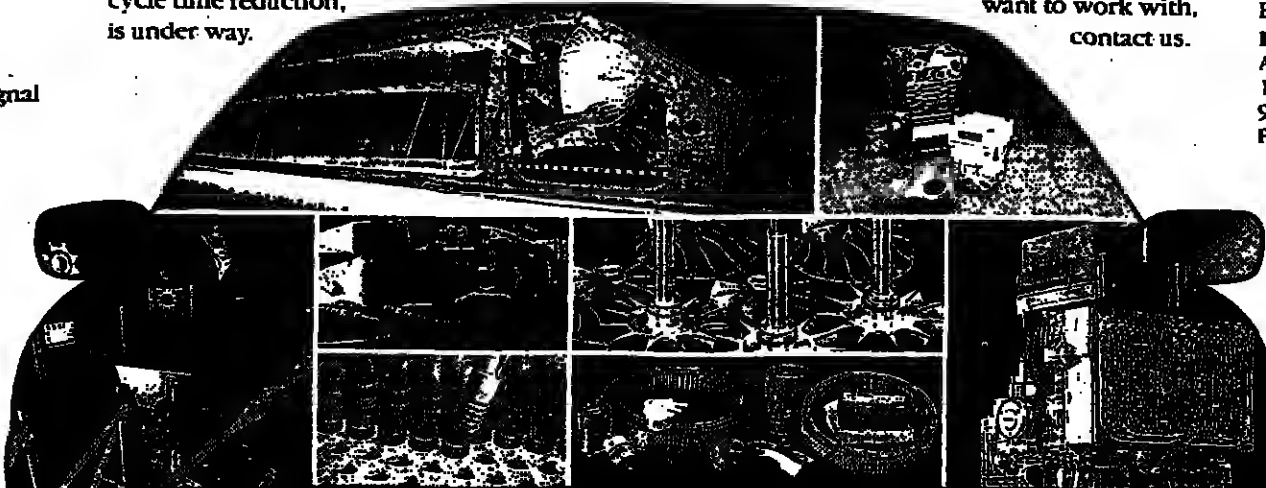
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## WORLD CAR INDUSTRY 3

## ■ EUROPE

## Intense international battle looms

Falling sales and excess capacity mean that producers must take drastic measures in the race to regain global competitiveness

EUROPE has become the battleground of the world motor industry in the 1990s. As demand for cars has nosedived across the continent, the failure of some European carmakers to put their houses in order during the recent years of strong sales has become glaringly apparent.

The race to regain global competitiveness is intense - the frontiers of the European car market will be thrown fully open to Japanese import competition by the end of the decade. Japanese carmakers are already establishing a growing local production presence in Europe.

Large parts of the European industry have been forced into short-time working. The European car industry's workforce is being drastically pruned. Components suppliers are being squeezed harshly to cut their prices. As overcapacity grows, companies are being forced to rationalise and restructure.

● Ford of Europe, once the Ford group's main profit generating machine worldwide, has racked up losses of more than \$2bn in the past two years.

It was exposed earlier than its rivals by the long-lived recession in the UK, its biggest market in Europe. Ford has already conceded that it will remain in loss in Europe in 1993 for a third successive year, despite tough steps begun late last year to restructure.

Ford is cutting the workforce of its European automotive operations (excluding Jaguar)

by 14.8 per cent, with the elimination of 14,400 jobs between October 1992 and the end of 1993. The target is to reduce the workforce to 83,000 from 97,400 over 15 months. The company acknowledges that if the European economy continues to weaken, it may have to make additional job cuts.

● Fiat's car and light commercial vehicle operations (Fiat Auto) plunged into an operating loss of L544bn (€229.72m) last year after a three-year slide from an operating profit of L2,362bn in 1989.

With its domestic market share in Italy under heavy attack, and falling market

share across Europe, Fiat Auto had been forced to start cutting production by late 1990. It eliminated output of 259,000 vehicles in 1991, 230,000 last year and 173,000 in the first six months this year alone. Its workforce has been reduced from 133,431 in 1989 to 125,378 last year.

● The Renault group of France managed almost to double its annual profits in 1992 and then to fall into loss in the final quarter, pushed down by the turmoil in the European currency markets, its share of losses at its partner Volvo, and the losses of its truck operations.

● The most serious problems have emerged in Germany, however, where Volkswagen, the group which has led the west European market in terms of sales volumes for the past eight years, crashed badly into loss in the final quarter last year. After making a pre-tax profit of DM1.2bn in the first nine months last year, it fell into a pre-tax loss of DM563m in the final quarter and has followed this with a DM1.6bn loss in the first six months of 1993.

In Europe, the rot set in during the final months of last year, as orders in most European car markets suddenly began to shrink and carmakers were left with bloated stocks and plants turned out cars for which there were no customers.

According to James Capel, the UK financial analysts, "the first quarter of 1993 has been the worst period for earnings (in the European car industry) since the early 1980s and possibly for a period much longer than that". There was no improvement in car demand in the second quarter.

During the second half of the 1980s, new car sales in west Europe bounded from one record year to another, with sales jumping from 10.17m in 1984 to 13.47m in 1989. For another three years from 1990 to 1992 demand held steady, near the record level of 13.5m.

Beneath the deceptively calm surface, however, all was not well: demand began to diverge wildly in the important markets. Sales in the UK, with the early onset of recession, slumped by a third from the 1989 peak. Sales faltered also in France. These setbacks were more than compensated for, however, by the unprecedented surge in new car sales that took place in Germany, Europe's biggest market, in the

WEST EUROPEAN NEW CAR REGISTRATIONS January-July 1993				
	Volume (Units)	Volume Change(%)	Share (%) Jan-Jul 93	Share (%) Jan-Jul 92
<b>TOTAL MARKET</b>	<b>7,001,000</b>	<b>-17.7</b>	<b>100.0</b>	<b>100.0</b>
<b>MANUFACTURERS:</b>				
Volkswagen (incl. Audi, SEAT & Skoda)	1,170,000	-22.5	16.7	17.8
General Motors (Opel/Vauxhall, US & Saab)	897,000	-14.4	12.8	12.3
Peugeot (incl. Citroën)	882,000	-14.0	12.3	11.8
Fiat (incl. Lancia, Alfa Romeo, Ferrari, Innocenti, Maserati)	23,000	-30.6	0.3	0.4
Renault (incl. Nissan)	840,000	-17.4	12.0	12.0
BMW	801,000	-25.5	11.4	12.6
Ford (Europe, US & Jaguar)	792,000	-18.3	11.3	11.4
Volvo	786,000	-18.3	11.2	11.3
Jaguar	6,000	-6.1	0.1	0.1
Renault (incl. Nissan)	741,000	-17.6	10.6	10.8
Nissan	243,000	-8.5	3.5	3.2
Subaru	230,000	-18.5	3.3	3.3
Mercedes-Benz	193,000	-27.4	2.8	3.1
Toyota	182,000	-2.3	2.7	2.3
Rover	181,000	+10.5	2.7	2.0
Mazda	125,000	-27.7	1.8	2.0
Volvo	98,000	-23.3	1.4	1.5
Honda	96,000	-13.3	1.4	1.3
Mitsubishi	90,000	-13.8	1.3	1.2
<b>Total Japanese</b>	<b>863,000</b>	<b>-12.5</b>	<b>12.3</b>	<b>11.6</b>

US cars imported from US and sold in western Europe.  
VW holds 51 per cent and management control of Skoda.  
\*Data include all per cent and management control of Skoda Automobile.  
(Honda holds a 20 per cent stake in Rover vehicle operations.  
\*\*Renault and Volvo are linked through minority cross-shareholdings.

Source: industry estimates

wake of unification of the country's east and west.

Carmakers - most of all the Volkswagen group, which controls about 28 per cent of the German market - were able to surmount the rising wave of demand in Germany, where the car market surged from 2.8m in 1989 to 4.2m in 1991 and 3.9m last year.

But the German market, the driving force in Europe, has moved alarmingly into reverse this year, and its fate has been shared elsewhere. Excepting only the UK, new car markets across western Europe have seriously shrunk in the first half of 1993.

Nearly 1.3m fewer new cars were sold in west Europe in

the first six months this year than in the corresponding period of 1992, as demand plunged by 17.2 per cent to around 6.1m according to industry estimates.

In July sales dropped by around 20.1 per cent further intensifying the already steep decline suffered in the first half of the year. West Europe is experiencing its sharpest fall in new car demand for more than a decade, with sales in the first seven months drastically lower than a year ago in 16 of 17 markets.

The only significant gain has come in the UK with a rise of 9.1 per cent in the first seven months, albeit from a very depressed level. In Germany

sales in the first seven months fell year-on-year by 20.6 per cent, in Italy the decline was 23.6 per cent, in France 17.1 per cent and in Spain 27.7 per cent.

Leading carmakers' latest forecasts suggest that sales could fall as low as 11.4m in the full year.

All carmakers in Europe are under fierce pressure. Only the UK's Rover group, a subsidiary of British Aerospace, is increasing its European sales in spite of the serious decline in the overall market.

The German industry is feeling the heat most intensely. By far the most powerful in Europe, the German car industry had rested on its laurels for too long. Now it is finding that a bloated cost-base has made it disturbingly uncompetitive not only against Japanese carmakers but also against its European rivals.

"Production costs in Germany are too high," says Mr Erich Emmrich, president of the German auto federation. "The cause is labour costs as well as energy, transport and environmental costs. Working hours are shorter than in the auto industries of most other countries. And corporation tax is higher than in our most important competing countries."

Based on exchange rates last December German carmakers had total wage costs of DM47 per hour, two-thirds higher than the average of DM28.3 in the rest of Europe, and 37 per cent higher than in the US and Japan at DM34.4 per hour. German car workers clocked up only 1,483 hours in 1991 (the latest figures available), a third less than the 2,181 hours worked by a Japanese car worker, and 27 per cent less than their counterparts in the US at 2,022 hours. German annual working hours are also well below the UK (1,830 hours), France (1,608) and Spain (1,654).

According to Mr Ferdinand Piëch, the beleaguered chief executive of Volkswagen, the group's current difficulties "can only be blamed in small part on the weakness of new

car sales - and the same is true for other German manufacturers.

The cause is rather the structural problems of the entire sector, which are now being openly exposed by the recession.

"We have to accept that in the eight years of booming sales we did not do our homework. Because as soon as sales fell we are in the red," he says.

Intent on expanding its sales and market share at the expense of cutting fat from the organisation and keeping costs under control, Volkswagen, the European market leader, has become the continent's highest

**Components suppliers are being put under severe pressure to cut prices**

cost producer. French carmakers have a 20 per cent cost advantage over the group, says Mr Piëch, and the Japanese a lead of 25-30 per cent.

Jobs are being cut. Last year's 7,500 reduction at VW's six domestic German plants is to be followed by a cut of about 15,500 in 1993 and 1994. The workforce at these plants will cut to 100,000 by the end of 1994.

Worldwide the group, which includes Audi, Seat and Skoda, is cutting at least 33,000 jobs in 1993/94 to 240,000.

Capital investments are being drastically reduced with a halving of planned spending across the group and a virtual halt on investment at Audi and Seat for the second half of the year.

Components suppliers are being put under severe pressure to cut prices with some reporting demands for cuts of up to 30 per cent over the next three years.

Volkswagen is not alone in having to resort to such drastic measures. In a stunning departure from corporate tradition Mercedes-Benz, the world's most prestigious luxury carmaker, is re-thinking the whole way it does business with an "extensive realignment of its strategic product policy" led by Mr Helmut Werner, who took

over as chief executive in May. He admitted earlier this year that Mercedes-Benz's present luxury and executive cars were "over-engineered", and said that the company would end up being priced out of world markets if it persisted with such a policy for developing new models.

Mr Werner said the only way Mercedes-Benz could maintain its engineering and quality leadership, was if it could also achieve cost leadership. Gone were the days, when the charging of premium prices could cover for an uncompetitive cost-base. "No one in the world is prepared to pay for German complacency on the cost front," said Mr Werner.

About 13,000 jobs were cut by Mercedes-Benz last year in Germany (at its car and commercial vehicle operations) reducing the workforce from 225,000 to 212,000 by the end of 1992. Another 14,500 jobs are scheduled to be cut in the next two years.

More vehicle assembly is being moved outside Germany to locations such as Mexico, South Korea and Spain. Mercedes-Benz is also following BMW to the US, where both groups are building their first passenger vehicle assembly plants.

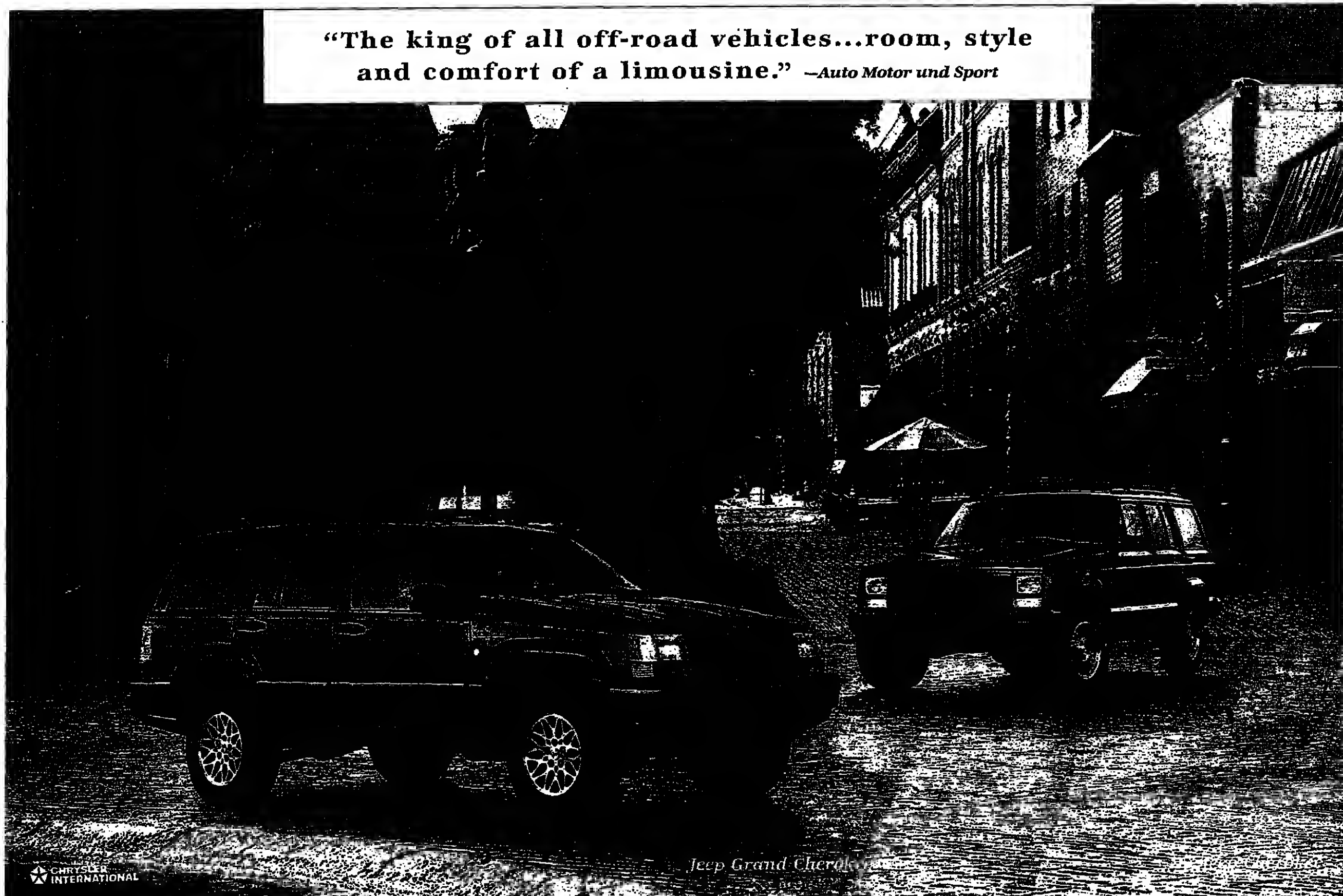
The pain of recession in Europe is being exacerbated by the building of additional plant capacity across the continent. The new facilities were planned as west European car producers were still basking in the years of successive annual sales records. European producers are bringing into production plants with a capacity for about 1.5m vehicles a year between mid-1992 and the end of 1994, although VW has delayed part of its expansion in eastern Germany.

Japanese vehicle makers are expected to have built a capacity in Europe for about 1.2m vehicles a year by the end of the decade.

"The whole industry but European manufacturers in particular have to face one particularly severe international challenge. This is worldwide overcapacity," says Mr Bruno Adelt, executive vice-president of the Volkswagen brand division. "For the remainder of the 1990s we estimate this at more than 10m vehicles... Excess capacities in Europe will be tougher and above all pressure to sell at lower prices will increase dramatically."

Kevin Done

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## WORLD CAR INDUSTRY 4

## THE JAPANESE IN EUROPE

## Tensions with the EC are growing

Painful negotiations are again under way between Brussels and Tokyo over the levels of Japanese exports

THE rapid development of Japanese carmakers' production capacity in Europe is coinciding alarmingly with a steep downturn in west European new car sales.

Inevitably tensions are growing between the European Community and Japan, as European carmakers face a growing burden of overcapacity and in many cases mounting losses.

Painful negotiations are again under way between Brussels and Tokyo over Japanese export levels, as some European carmakers seek sharp cuts in Japanese vehicle shipments to the EC and call for restraints to be placed on the level of Japanese production in Europe.

Under the terms of the controversial understanding reached by the European Commission and the Japanese Government in 1991 - the so-called "Elements of Consensus" - there were to be "no restrictions on Japanese investment or on the free circulation of its products in the Community".

At the same time, however, Tokyo undertook to avoid "market disruption by exports from Japan", and to monitor the level of its exports for seven years to the end of 1999. The seven-year transitional period was to allow EC carmakers to adjust "towards adequate levels of international competitiveness".

The vaguely-worded 1991 understanding, which itself was only reached after months of tortuous negotiations, had always threatened to be a minefield to administer from the moment it came into force at the start of this year.

But Brussels and Tokyo could hardly have bargained with the enormity of the problem they now face in the first year of the monitoring system: a plunge in the west European car market steeper than that suffered in the wake of the first oil crisis in the first half of the 1970s.

In April the two sides finally agreed on a ceiling for Japanese exports to the EC of 1,089m vehicles - cars and light commercial vehicles up to 5 tonnes gross vehicle weight - for 1993, a reduction of 9.4 per cent from 1992. The reduc-



Honda is expected to produce 32,000 cars this year at its Swindon factory in southern England. This is the company's first European car plant

tion was based, however, on an assumed reduction of only 6.54 per cent in the EC market this year.

Even at the time the market forecast looked hopelessly optimistic, and in June the Commission was again forced to seek talks with Tokyo to try to negotiate a further reduction in Japanese exports. Another round of talks is expected to take place this month.

In the event, new car sales in

**The downturn in west Europe's new car market could not have come at a more sensitive moment**

the EC have plunged by 17.8 per cent in the first six months of this year, with no sign of any recovery in demand in the second half.

The downturn in the west European new car market could hardly have come at a more sensitive moment, with Japanese vehicle production in Europe starting to grow rapidly. Nissan, whose European presence is most advanced, has forecast a 51 per cent rise in output at its UK plant this year, to 270,000 cars

from 179,000 in 1992.

During the last 12 months Toyota and Honda have started production at their first European car plants, both located in the UK. Suzuki has started car assembly at its more modest facility in Hungary. Honda is expected to produce 32,000 cars this year at its Swindon plant in southern England, while output at Toyota's plant at Burnaston, near Derby, is expected to total 36,000 in 1993, rising to 100,000 next year.

Magyar Suzuki, which is scheduled to produce 15,000 cars this year, is planning to raise output to 50,000 by 1995. In the UK Honda has talked publicly about raising output to 100,000 by 1995, while Toyota has named 1997 as the target date for reaching a capacity of 200,000 cars a year. However, vehicle industry analysts expect both plants to raise output significantly above these levels by the end of the decade. As output expands at these locations, Mitsubishi Motors is the next in line to start production in Europe.

It is pushing ahead with the development of Netherlands Car (Nedcar), its joint venture with Volvo of Sweden in which a one-third stake is also held

by the Dutch government.

Mitsubishi and Volvo are investing heavily in NedCar - it is currently included in the Volvo 400 small family car series - for the development of a new range of cars to be launched in 1995/96. The capacity of the plant at Born in the Netherlands is being doubled to 200,000 a year. The output of 180-200,000 cars a year will be shared equally between Mitsubishi and Volvo.

NedCar says that about £1.3bn is being invested in the development of the cars and the plant, of which £1.1bn will be financed by the present shareholders and the remainder financed externally. The training of several hundred NedCar employees at Mitsubishi's Mizushima plant in Japan is already beginning this autumn.

Above all, the Japanese car plants are having a big impact in the UK, where they already account for more than a fifth of British car production.

DRI, the UK-based automotive analyst, forecast that the car output of Nissan, Toyota, Honda and Mitsubishi in west Europe, will grow from 326,000 this year to 933,000 in 1998. At the same time the share of Japanese makes of car in the west

European new car market is forecast to grow from 11.9 per cent last year to 15.5 per cent by 1998.

The Japanese vehicle manufacturing presence in west Europe also includes several other ventures: Nissan Motor Iberica and Suzuki's Santana-Motor in Spain; IBC Vehicles, Isuzu's joint venture with General Motors in the UK, as well as Daihatsu's joint venture

**Suzuki announced that it was being forced to abandon its planned venture with Seat**

with Piaggio in Italy to produce small microcars, and the production under licence of Toyota pick-ups by Volkswagen in Germany. In Italy, Bertone produces a small volume of four-wheel-drive vehicles, called the Freeclimber, based on the Daihatsu Sportrak but powered by a BMW engine.

The production of four-wheel-drive leisure/utility vehicles has proved an attractive niche for the Japanese carmakers in Europe, as these vehicles become increasingly

popular as substitutes for cars.

In the UK, IBC Vehicles produces the Opel/Vauxhall Frontera, a four-wheel-drive vehicle based on Isuzu technology. Frontera output is forecast at 42,000-45,000 this year. In Spain, Santana-Motor produces the small Suzuki Vitara four-wheel-drive vehicle with an output of 33,515 last year, while also in Spain, Nissan production includes the Terrano II leisure/utility vehicle - also sold as the Ford Maverick.

Despite this rapidly growing presence, it has not all been plain sailing for the Japanese carmakers in Europe. In July Suzuki announced that it was being forced to abandon its planned venture to produce a small car in collaboration with Seat, the Spanish subsidiary of Volkswagen. The project was well advanced, with production already set to start in 1995, scheduled to rise to 150,000 a year.

For Mazda, several years of negotiations - including talks with Ford and Saab - have ended in frustration: it has been unable to find a joint venture partner in Europe. Mazda is left as the only one of the leading Japanese carmakers with no firm strategy for European production.

Nissan, too, has run into expensive problems in Spain, where Nissan Motor Iberica is accumulating heavy losses - they total Ptas4,370m (\$16m) in the whole of 1992, and a further Ptas11.1bn (\$89.7m) in the first three months of this year alone. It has already been forced to inject Ptas5,023bn (\$40.5m) in new equity capital into the company so far this year, and expects to have to inject a further Ptas10bn during the next 12 months.

At the same time, there are signs that the Japanese carmakers will very quickly become just as vulnerable to recession in Europe as their long-established rivals. Already, Nissan has been forced this year to cut production in the UK of its Primera large family car, in response to falling sales across Europe. It has also had to stop overtime work at the plant.

Kevin Done

## PRICING

## EC Commission sweeps away fog of confusion

To consumer groups' chagrin, manufacturers' commercial policies were not criticised

IN July the EC Commission blew away another big patch of the fog of confusion and suspicion which has long surrounded manufacturers' new car pricing structures within the EC, writes John Griffiths.

It did so by requiring manufacturers to publish their first pan-European price lists, showing what similar models cost in individual EC states.

The Commission's declared aim in causing the lists to be published - at six-monthly intervals and with the next to be based on November 1 prices - is to "improve price transparency" for consumers wanting to shop around the EC for the

the EC is that the motor industry is using its restricted distribution system - employing exclusively franchised dealers - to stifle competition. They claim that the system keeps prices higher than they would be in the case of a retailing "free-for-all" in which cars were available from almost any retailing outfit wishing to sell them, as is the case with white or brown goods.

The motor trade and industry, which argues strongly that the complexity and safety aspects of cars require a specialised sales and service system, is allowed to operate its exclusive dealer systems under a specific block exemption from normal Treaty of Rome competition rules.

However, its current exemption from the rules expires in June 1995 and the Commission has indicated that, after making one allowance for exchange rate changes, it does expect to see its guidelines more strictly observed if the industry wants the exemption renewed.

For that reason, in many ways the second list in November will be more important than the first list in providing the first clear-cut figures on price differential trends.

The first list reflected prices, as of May 1, of 55 European and 17 Japanese models. They were - and will continue to be - based on recommended retail prices, adjusted for equipment differences and given in local currencies both before and after tax.

Supplements for options such as air conditioning and power steering are given, as well as the premium for right-hand-drive models for the UK market.

An index of differentials is arrived at by converting local currency prices into European Currency Units (see chart).

Continued on Page 5

**The motor trade and industry is allowed to operate its exclusive dealer systems**

best bargains available.

For consumer groups which had long claimed that prices in some countries, notably the UK, were too high, the first list - and the Commission's comments on it - did not quite vindicate their stance.

The list showed that some big differentials do exist. However, while there were isolated cases of variations of more than 40 per cent, most were either within or not far outside the EC's own guidelines. These state that maximum price differentials should not vary by more than 18 per cent in the short term and by more than 12 per cent over a longer period.

To the consumer groups' chagrin, the Commission identified exchange rate fluctuations as being a big factor in the divergences and refrained from criticising manufacturers' commercial policies.

A principal contention of consumer organisations within

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## EC Europe Retail Price Comparison as at May 1st 1993

	Belgium	Germany	Spain	France	Italy	Ireland	Lux	Netherlands	Portugal	UK
Fiat Cinquecento 900	111	126	100	124	103	-	108	116	114	116
Renault Clio RL 1.2	117	124	102	120	100	113	117	118	102	116
Opel Corsa 1.4 3dr	119	129	101	122	101	105	119	121	100	124
Ford Fiesta 1.1CLX	120	129	107	126	100	112	120	123	112	122
VW Polo Fox	125	147	112	113	102	110	110	107	109	107
Nissan Micra 3dr	110	115	100	111	100	138	128	146	109	107
VW Golf CL 60PS 5dr	120	122	113	118	100	117	115	118	115	132
Opel Astra 1.4 5dr	116	124	108	116	101	103	115	118	100	115
Nissan Sunny 1.4LX 4dr	102	109	-	102	-	100	102	100	106	112
Opel Vectra 1.6 4dr	126	132	118	122	111	113	128	123	100	116
Ford Mondeo 1.6CLX	118	124	102	112	100	100	118	108	106	104
Honda Accord 2.0LS 4dr	110	109	109	-	102	-	110	100	-	108
Audi 80 115PS	115	124	114	127	100	125	118	120	-	115
BMW 316i 4dr	108	111	105	113	100	102	111	110	117	108
Mercedes 200E	108	108	110	105	100	101	111	106	115	100
BMW 730i V8	118	120	115	122	111	111	116	119	-	100

AEC Chart 5300 Prices Indexed - lowest cost market = 100

Source: EC Commission

## Commission ends confusion

Continued from Page 4

Among small cars, variations of up to 24 per cent were found - in the case of Fiat's Cinquecento - between the most expensive market, France, and the cheapest, Spain.

In the large saloon category, Ford's new Mondeo 1.6LX saloon was found to be 23.9 per cent more expensive in Germany than in Italy and Ireland, the cheapest markets. At the executive car level, BMW's biggest variation was of 22 per cent, in the case of its 730i V8 model, in France, with the UK being the cheapest.

Overall, the lists showed that for 92 per cent of mini cars on the list, such as Fiat's Cinquecento, price disparities were less than 20 per cent. The differential was less than 20 per cent for 89 per cent of medium-sized family cars and 89 per cent of luxury cars. In all other market sectors except "people carriers", four-wheel drives and sports cars (collectively averaging 89 per cent), about four-fifths fell below the 20 per cent differential level.

As regards consumer group claims that UK prices are particularly high compared with leading continental European markets, the price lists showed it to be an expensive market on some small cars, middling for many family cars - and often the cheapest market for luxury cars.

Almost certainly, the Commission will find a further degree of convergence.

Manufacturers and importers have, for example, been pushing down retail list prices in the UK. The fact that the lower "official" prices of themselves will have done virtually nothing to change actual transaction prices will not prevent the

EC "convergence" figures looking better.

The cuts have been achieved mainly by reducing dealers' official margins from a typical 15-17 per cent to 10 per cent. Because it is has been almost a matter of routine for dealers to give discounts of 10 per cent or more, the only real effect is to reduce their scope for discounting.

In some cases, however, the downward pressure on list prices is real.

Volkswagen, for example, is

**The price lists do not take account of the discounts available in individual markets**

determined to capture a larger share of the UK market, having this year taken over UK distribution from Lancia. To help do so it has cut 11 per cent from the prices of diesel models; substantially more than the 5 per cent reduction on its dealers' margins.

And Ford, with its traditional UK market leadership now under strong challenge, was obliged by market pressure to cut prices of its Mondeo model by a real 6 per cent - the dealers' margin was already only 10 per cent - only two weeks after its launch.

Not surprisingly, the European industry has sought to make political capital out of the Commission's acknowledgment of the big role played by currency movements.

What has been demonstrated conclusively, according to the European Automobile Manufacturers' Association (ACEA), is that it is unrealistic to make meaningful price comparisons

- let alone have "harmonised" prices - when some currencies have been so volatile. Between July last year and the middle of May, the main EMS currencies - German, French, Belgian, Dutch and Danish - rose 22 per cent against the lira (briefly touching 32 per cent in April), 20 per cent against the peseta, 17 per cent against sterling and 15 per cent against the Portuguese escudo.

Manufacturers - particularly non-local manufacturers - cannot be expected to make instant double-digit price changes," the ACEA contends.

The price lists themselves have a lot of inbuilt compromises. They do not take account of the widely varying discounts available in individual markets.

And while excluding Denmark and Greece, because local taxation - of more than 100 per cent - is seen as excessively depressing pre-tax prices, Ireland, the Netherlands and Portugal are included even though national taxation in each can add 50 per cent to the cost of a new car.

In these countries, too, manufacturers have a strong incentive to keep pre-tax prices down in order for tax-inclusive prices not to be beyond the reach of ordinary consumers.

The Commission implicitly has accepted that such tax regimes in themselves are an undesirable obstacle to the convergence it is seeking from manufacturers. It has indicated that it will put pressure on the governments involved to reduce such distortions.

But if such governments are feeling such pressure, there is as yet no visible sign.

## British carmaker bucks the trend

THE Rover Group has achieved a rare distinction this year. It is the only sizeable car maker to have increased unit sales in continental Europe's tumbling car markets.

Its European sales rose by 10.5 per cent to 191,000 in the first seven months in the face of a nearly 18 per cent decline in the market overall.

Rover's market share has increased from 2 to 2.7 per cent. It has largely succeeded in transforming its image from an essentially failed UK state-owned leviathan to a relatively small but flexible and competent producer of cars perceived to be a cut above their mass-market rivals.

And five years after buying it - as BL - for £150m from the government, the parent company, British Aerospace, became free to sail it on August 12.

With production of 405,000 cars and Land Rover, Range Rover and Discovery four-wheel-drive vehicles last year, Rover is a minor but nevertheless important player in the European market. It remains, by a small margin, the UK's biggest carmaker, although it takes second place to Ford as a vehicle maker if light commercial vehicles are included.

Its chairman, Mr George Simpson, has depicted a future for Rover in which it can be a viable, independent producer of around 500,000 vehicles a year: earning enough not just to satisfy shareholders, but to make the daunting ongoing investments required of any car maker to renew model ranges.

Even if, as some industry analysts such as Prof Garel Rhys of Cardiff Business School's Motor Industry Research Centre indicate, Rover should need higher volumes, it has the capacity to achieve them.

Rover's car plants at Longbridge near Birmingham and Cowley, Oxfordshire, with Land Rover's Solihull facility could virtually double current production with little investment and maximum multi-shift working.

Perhaps most important, it has had by far the longest and most intimate relationship of any European manufacturer with the Japanese industry



The Rover 600GS. The 600 series is regularly matched against BMW by the motoring media

which its rivals have come so much to fear.

Rover began building Honda's Ballade (under licence, as the Triumph Acclaim), in 1980. Subsequently, through joint car development programmes such as the Rover 800/Honda Legend executive cars; the smaller Rover 200/Honda Concerto and the just-launched Rover 600/Honda Accord, Rover has assimilated to good effect much of the working culture, practices and manufacturing systems which have served Japanese car makers so well in their forays into overseas markets.

Honda, now making its own cars at Swindon, has itself benefited from Rover's vehicle design expertise and there is a 20 per cent cross shareholding between Rover and Honda's UK manufacturing subsidiary.

It was little wonder, then, that Volkswagen, in its dash to become European market leader by acquisition (SEAT and Skoda), was tipped as a leading candidate to buy Rover when the UK government's strings attached to BAE ownership were finally snipped - and after it became clear that Honda itself had no ambitions to acquire control.

Other leading manufacturers such as Ford were also assumed to be potential bidders, given what was a widespread assumption that BAE would seek an almost immediate sale, for £450-£500m, and

concentrate once more on its core aerospace business.

The assumption appears to have been wrong. Not only is BAE showing no immediate desire to sell, with defence and other parts off the aerospace industry going off the boil, there are signs that Rover is itself coming to be regarded as a core business.

Nor is the current depressed European motor industry climate, particularly in Germany,

**Rover remains tight-lipped about new product plans**

conducive to acquisitions.

There is speculation about possible management buy-out proposals. But whether in BAE or managers' hands, "the best result could well be that Rover remains the industrial equivalent of Belgium," observes Prof Rhys.

The Rover 200/400 has already re-established Rover as a serious competitor in the lower-medium car sector. Following a £200m investment to transform production facilities at Cowley, the Rover 800 has become a market leader in the UK executive car sector. The fact that the Rover 600 is regularly matched against BMW by the motoring media provides further evidence that Rover's "upmarket" strategy is working.

A new entity, the Special Projects Division, has been formed to exploit market niches offering the prospect of high margins for relatively low investment. Cabriolet and Cooper versions of the evergreen Mini and the MG RV8 sports car are just among the first of a rash of such products over the next few years.

Production of Discovery and Range Rover models has been raised repeatedly and Rover expects to quadruple sales of these vehicles, to 16,000 units annually, in the US alone by the mid-1990s.

Meanwhile, it is indicative of the new flexibility of both production processes and Rover's 33,000 strong work force that the Cowley plant, in which Rover has invested more than £200m since 1990, is viably building, in small batches away from the main production lines, the ageing Montego and Maestro models.

Mr John Towers, Rover's managing director, makes clear that it will continue to do so for as long as demand for even a few thousand a year persists.

Inevitably, however, Rover's early heavy dependence on Honda, its extensive use of Honda engines and the Japanese maker's essentially leading role in joint car development to date has led industry observers to question whether Rover any longer has the technological as well as financial resources to stand alone.

Mr Towers grins. Across Rover's product range, he points out, a full-line product engineering capability can still be found. The Rover 200 coupe's body shell is Rover's own, albeit on an essentially Honda platform. The widely acclaimed K series engine owes nothing to Honda, and is being developed from the current 1.1 and 1.4 litre versions into 1.6 litre and V6 units which will eventually displace Honda's engine in the 200/400 and 800 ranges.

Basically what the world has not so far seen is the resurgent Rover's full technology capability brought together into one new model, he teases - but the world may not have many years to wait.

While Rover remains notoriously tight-lipped about new product plans, it plans to re-enter the sports car market with a K Series-engined MG, code named P23, in 1995. This, however, is to be a joint venture with Mayflower Corporation, the specialist UK engineering company, which is being contracted to design, develop and supply the body shell.

A wholly Rover vehicle is much more likely to be a replacement for the Metro, on which Rover is currently working.

A question mark remains, however, over finance. Mr Towers says Rover now is close to its target of financial break-even at 400,000 cars a year, after making startling productivity improvements - a claimed 18 per cent at Cowley so far this year - and the result of stringent cost cutting.

Analysts expect Rover to achieve a trading profit, before interest, of £30-50m this year. But with current debts of around £400m Rover would still be making a net loss. And this year's trading profit will follow two consecutive years of operating losses - £49m in 1992 and £55m in 1991. (There was a trading profit of £85m in 1990).

Mr Towers insists that it will take only a relatively modest upswing in markets for the benefits of efficiency measures to show through. Analysts tend to agree. Many expect profits, at least at the trading level, to more than double in 1994, to £90m-£100m.

John Griffiths

**"Outrageous car...driving the Viper is a great experience." -Financial Times**

CHRYSLER INTERNATIONAL

Chrysler Viper RT 10



## WORLD CAR INDUSTRY 6

## GERMANY

## Carmakers focus on labour cuts

If the future seems black, the present looks even blacker

THE rejuvenation of the German motor industry is under way with a vengeance - especially at Volkswagen. The company recently concluded a deal with its workers' council under which employees will be able to retire at 55.

For the five years until they become eligible for a normal pension, Volkswagen workers will be paid 90 per cent of their net salary; a third from the company and the rest from state employment benefits.

While this milestone agreement demonstrates the vigour with which VW is cutting its labour force in its fight to return to profit, it also shows how difficult it has become to cut the fat. Reduction of the retirement age is a costly attempt to avoid the unthinkable: forced redundancies. Common enough in the UK and the US, they are almost unknown in Germany's "social economy".

Almost 100,000 jobs have disappeared from the German

vehicle industry in the past two years. Furthermore, according to Mr Achim Diekmann, director of the VDA industry association, another 100,000 must go by the middle of 1995. In the meantime, overall costs must be reduced by 20 to 30 per cent, he says.

If the future seems black, the present looks even blacker. The industry association is now counting on German car production tumbling from 1.98m last year to about 4m in 1993 - a drop of 18 per cent compared with springtime forecasts, considered grim at the time, of 10 per cent.

The French and Italian markets have failed to produce expected sales growth because of recession and revaluation of the D-Mark. Some German makers have increased list prices to compensate but, according to analysts, risk losing market share. Volkswagen,

for example, has raised Italian prices by about 14 per cent. In Germany, too, the drop in new car registrations is markedly worse, so far, than the expected 20 per cent decline for 1993 - and now the VDA is worried that next January's 16-per-cent increase in the cost of petrol, coming at a time when disposable incomes are shrinking in real terms, will prolong the

But the extraordinary story of VW's seduction of GM's Mr José Ignacio López de Arriortúa, the renowned "cost-killer," and the clouds of allegations which followed him from Detroit to Wolfsburg, have tended to obscure the deep-seated restructuring going on throughout the German car industry before López arrived and unleashed his pro-

spects are hobbled by their being 20 per cent too expensive.

According to the VDA, labour costs per vehicle produced in France, almost the same as in Germany 10 years ago, are now about 30 per cent less than levels across the border. The German labour force was the first, obvious target for the knife, but as VW's early retirement programme illustrates, there are limits if confrontation with the workforce is to be avoided.

But the search for economies has spread far beyond car manufacturing plants. Germany's estimated 3,000 components companies are now in the front line, confronted by demands for instant price cuts, new contracts and threats if they do not comply.

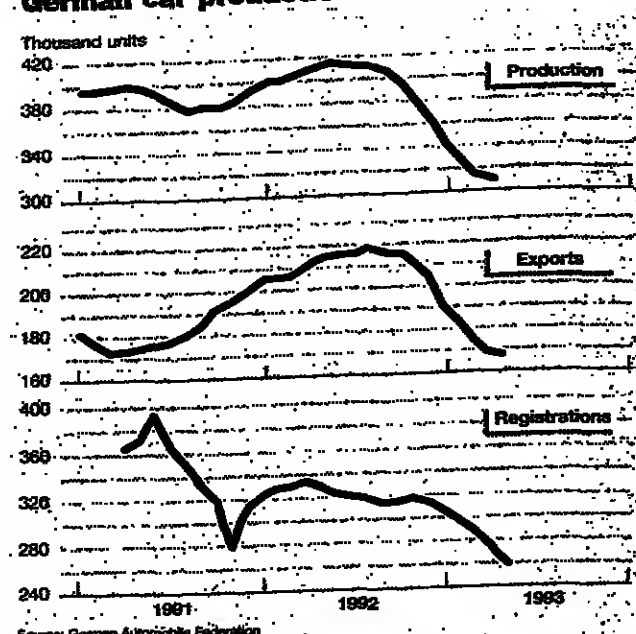
Much has been made of VW's blunt demands for 30 per cent price cuts. Two companies

have already claimed that they have been driven out of business by its tactics. The survivors complain they have already paid their dues for the restructuring of the industry, and cite independent research by Deutsche Bank analysts which shows that between 1985 and 1992 components prices increased by only about 5 per cent, while retail prices of cars rose more than a quarter.

But however justified their appeals may be, they are caught in a deadly squeeze. As Mr López discovered at Opel - part of a multinational group with wide international contacts - there are plenty of French, Italian, British and other suppliers willing to step into any breach left by German manufacturers which fail to meet his demands. Former communist-bloc countries increasingly offer even cheaper sources for some parts.

This has not gone unnoticed elsewhere. According to industry estimates, the foreign con-

German car production and sales



tent of an average German car is already 30 per cent, compared with 25 per cent last year. Mercedes, for example, which traditionally buys about 90 per cent of its components from German companies, is seeking to reduce the propor-

tion to about 75 per cent. According to VW's new management, the German motor industry is fighting for its life. No-one wins such a struggle without pain and sacrifice.

Christopher Parkes

## BMW'S NEW STRATEGY

## Task has been getting tougher by the day

Profits have fallen, but one famous name is managing remarkably well

MR Bernd Pischetsrieder, an earnest, mild-mannered engineer who joined BMW's production planning operations straight from university 20 years ago, knew he had a tough act to follow when he was appointed this year - at the age of 45 - to succeed Mr Eberhard von Kuenheim as BMW's management board chairman.

Since May, when he first got his feet under the desk which Mr von Kuenheim had occupied for 23 years, the task has been getting tougher almost by the day. Europe's car markets continue to weaken and the deteriorating competitiveness of Germany as a manufacturing base has become ever more cruelly exposed.

Given the onset of recession in most of its important world markets since the start of the 1990s, BMW has, in fact, done remarkably well. Last year it built a record 568,000 cars - some 8 per cent more than the previous year and, for the first time, more than its rival, Mercedes-Benz. The value of sales rose by nearly 5 per cent to DM31.2bn. But operating profits fell by more than 15 per cent, to DM1.48bn. And for the first time since the mid-1980s, net profit was lower, by about 7 per cent, at DM726m.

And this year, with demand problems compounded by the D-mark still riding high on the Bundesbank's reluctance to cut interest rates, the profits situation has deteriorated sharply. Net profit for the first half fell by more than one-third to DM421m. Analysts expect full-year profits of about DM500m.

Mr Pischetsrieder has also warned that there is no prospect of production matching 1992's levels. Car output in the first half was down 10 per cent at 275,000 - although this was still a much better performance than the German motor industry overall, which cut output by one quarter.

Some markets, notably North America and the UK, are on the upswing, helping to counter the continental European sales slide. BMW should also benefit substantially when its new plant at Spartanburg, in South Carolina, starts production in 1995; it is expected to be able to build cars 40 per cent more cheaply than in Germany. The plant will add 70,000 cars a year to BMW's existing 560,000 cars a year capacity in Germany. The car will be an entirely new model, thought to be a sports car, for sale throughout the world.

And an agreement just signed, under which 3-Series and 5-Series cars will be assembled in Vietnam, will also add to the - relatively minor - revenue stream from existing similar operations in Indonesia, Malaysia, Thailand and Latin America.

But in the meantime, cost-cutting and greater commonality of components, backed up by the introduction of an array of new models to broaden BMW's available market, are now at the top of the agenda in terms of reversing the fall in profits.

More jobs than the 3,500 already lost this year are likely



Pischetsrieder believes there is scope for closer co-operation

to go as part of the process.

With the greater diversity of models, Mr Pischetsrieder intends BMW to secure a step increase in its world market share to compensate but, according to analysts, risk losing market share. Volkswagen,

The motor show now starting in Frankfurt is not expected to provide an immediate launch pad. More engine variants and extra models in the 3 and 5 series ranges are more in prospect. The company needs them, for it is about to start facing much stiffer competition from its arch-rival Mercedes' 190 replacement, now being launched. According to Mr Helmut Werner, Mercedes' chairman, some 150,000 of the new model will be made this year, rising to about 200,000 in 1994 and 250,000 in 1995.

But more radical changes are on the way from BMW. It does not exactly intend to return to producing the three-wheeled "bubble cars" which were a familiar sight on Europe's roads 30 years ago. But like Mercedes' recently unveiled concept "city" car, the Vision A 53, BMW's similar Z13 urban runabout points the way to a possible whole new market sector for BMW in the mid-to-late 1990s.

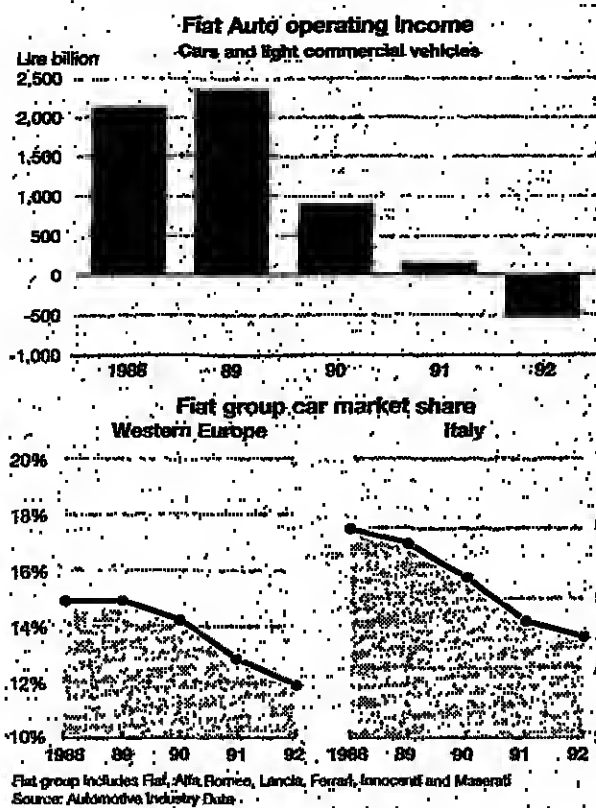
On the cost-cutting, Mr Pischetsrieder says he believes there is much greater scope for closer co-operation between European vehicle makers as well as the components industry to achieve savings. For example, he points out that it is self-defeating for individual manufacturers separately to develop complex and expensive systems to perform essentially the same task, using anti-lock braking systems developed by Alfred Teves, Robert Bosch and Mercedes as an illustration.

Mercedes appears to agree. Already the two companies have started their first tentative collaboration on components. "It would be ill-advised to continue to try to make everything ourselves," Mr Werner says.

Such a development marks a milestone in the history of both companies, each of which has remained among the most determinedly independent and vertically integrated of all the world's car companies.

It is a measure of the severe pressures under which they, and the entire German motor industry, now find themselves. The pressures can only increase further - not go away.

John Griffiths



ALTHOUGH austerity is becoming the watchword with Italians, they are unlikely to begrudge Fiat a PR splash in launching the Punto this month. A measured dose of ostentation and drum-beating will not be held amiss for a new car that is considered fundamental for Fiat's fortunes.

The Turin carmaker has not had much success with new models since it launched the Uno a decade ago. The Uno earned praise from journalists and won the European Car of the Year Award in 1983. But as well as being a journalists' favourite, it was also a commercial hit with the car-buying public.

Indeed, it continues to draw purchasers into showrooms. The Uno's appeal is such that it still heads Italian rankings of new car sales 10 years after its launch. With 146,400 sold in the first half of this year, the Uno achieved more than double the sales of its nearest rival, Ford's Fiesta.

Clearly, the evergreen Uno will be hard to follow. Yet the Punto must meet its highly successful predecessor if Fiat is to recover the leading position from which it has slipped over the past five years. "The launch will represent an important milestone in the programme for the renewal of the product range," Fiat's directors told shareholders this summer.

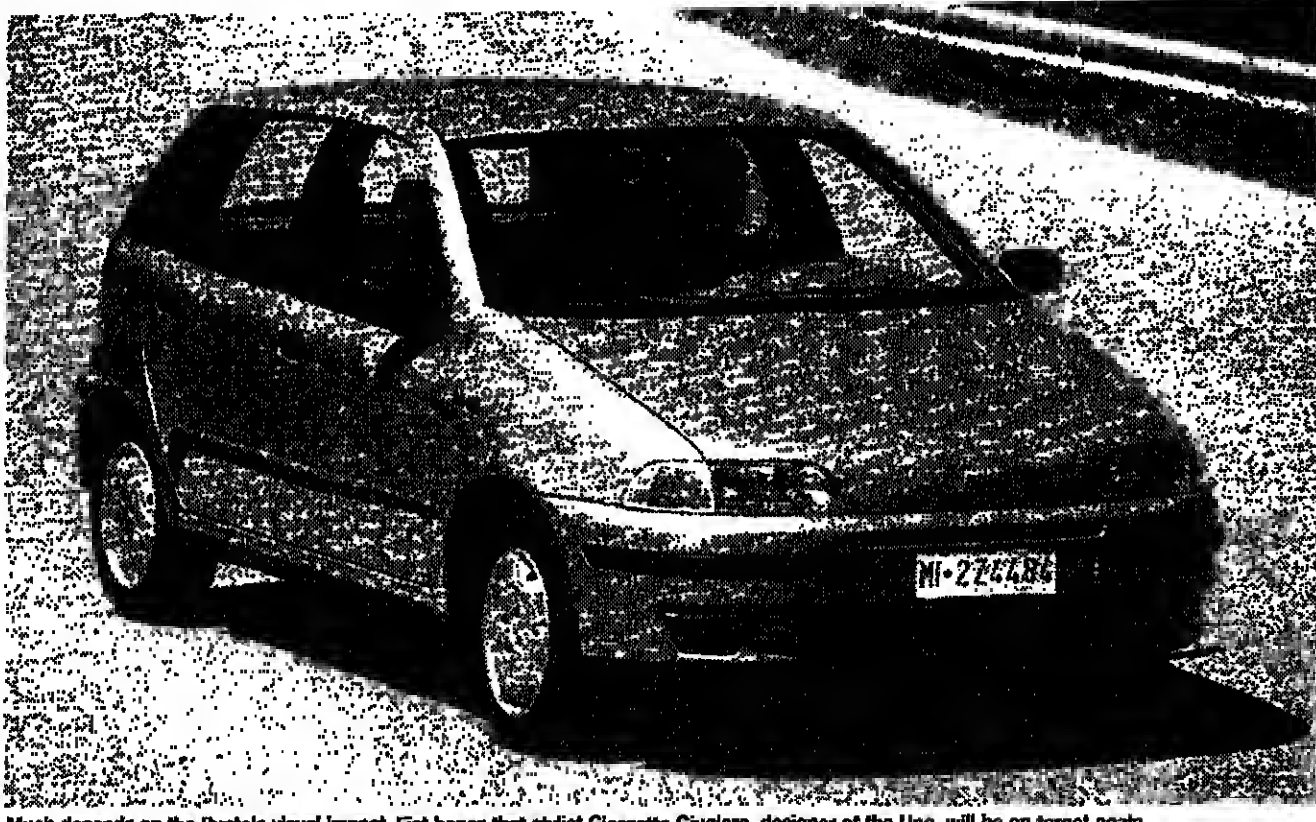
Much depends on the Punto's visual impact. "Styling is the principal factor in car purchase in Italy," says Mr Giuseppe Gabriele, director of the car importers' association UNRAE. In involving stylist Giorgetto Giugiaro in the Punto, Fiat hopes that the designer of the Uno will be on target again.

But the new factory at Melfi, near Potenza in southern Italy, where the Punto will be produced, will also play a critical part in determining whether the Punto will be a success or not. Quality and efficiency are the keywords at Melfi.

Fiat says that its green-field factory is in the vanguard of car production and will ensure manufacturing excellence and cost competitive products. Flexibility and a just-in-time approach, achieved by the location of primary suppliers at the same site, are features on which Fiat is basing its hopes at Melfi.

Series production will start in January, although cars will be leaving the assembly lines from this month. When Melfi is fully on-stream its 7,000 workers will be building 450,000 cars each year.

Melfi represents total investment of L4,700bn and is part of a major capital expenditure programme. Fiat's capital spending in the car sector



Much depends on the Punto's visual impact. Fiat hopes that stylist Giorgetto Giugiaro, designer of the Uno, will be on target again

## ITALY

## Why Fiat needs a winner

The Punto must match its highly successful predecessor if the Turin group is to recover the leading position from which it has slipped

amounted to L3,920bn last year on net revenues of L27,450bn, a sharp increase on 1991's figure of L2,160bn on net revenues of L27,510bn. Fiat Auto also spent another L1,330bn on research and development last year, a slight increase over 1991.

However, this is not an easy time for financing new investment. Cash flow at Fiat Auto fell from L1,990bn in 1991 to L1,330bn last year, and operating income has been sliding. From a L2,360bn high in 1989, operating income slumped to L1,600bn in 1991 before plummeting to a L540bn loss last year.

Figures at group level underline the strain of financing the investment programme. From L3,310bn in 1989, Fiat Group net income dropped to L530bn last year, and cash flow almost halved from L6,430bn to L3,630bn. Over the four years 1989 to 1992, the group's net financial position suffered a massive reversal, moving from a surplus of L2,120bn at year-end 1989 to a deficit of L3,950bn at the end of last year.

Hopes of improvement this year are slender. Industry specialists wonder about the impact on the accounts of sum-

mer sales campaigns, aimed at reducing stocks before the Punto's launch. But the costs of special offers, discounts and other encouragements to move stocks are less significant than market conditions.

Fiat is launching its new model at an inauspicious moment. Car sales in Italy in the first half of the year

figure of 1,800,000.

Mr Pistola and Mr Berni both think that there might be a small increase to 1,900,000 next year. If the more pessimistic experts are correct, Fiat and the importers may have to wait until 1996 before the 2m threshold is again crossed.

Economic, political and fiscal factors underlie that sharp drop - some importers have been able to buck the trend.

The most prominent is Nissan, which is enjoying booming sales of its Sunderland-built Micras and Primers. In the first six months, Nissan sold 24,500 cars - an increase of 78.4 per cent on the same period last year - to take a market share of 2.3 per cent.

Rover and General Motors are also both performing well. Rover suffering a volume decline of only 2.4 per cent and GM 4.1 per cent between January and June.

Mr Pistola says that "Roverisation" has been successful, with the Rover badge enjoying a good image for styling, quality and technology. "We are competitive on price," says Rover's managing director. The company is doing well in certain niches, and with its 800 series top-of-the-range saloons and coupes.

"November's launching of the 600 series, which has a distinctive styling edge, should help us increase market share. The 400 series station wagon being launched next year will also provide a boost," says Mr Pistola. And he believes that Rover will double its market share when it launches its new small car in two or three years.

"Value for money is General Motors' formula," says Mr Berni. Last year, Opel's sales rose by 33.7 per cent to 134,000, and its market share increased from 4.3 to 5.6 per cent. Although sales dipped slightly in the first six months this year, Opel's share increased to 6.6 per cent. "We are a volume business, but strong in niches at the same time," Mr Berni says, pointing to Opel's success with the Astra estate and Calibra coupe.

Despite the German origin and D-Mark pricing of much of GM's imports, the company has made sure to keep price lists competitive. And this is true of other German and French carmakers. The lira devaluation is not offering respite to Fiat in its home market. Indeed, Mr Gabriele says that there is now a flourishing parallel export market of German and French cars due to a 30 per cent price differential.

With Italians pragmatically assessing alternatives when considering their new cars, and no longer feeling patriotic obligations to buy Fiat, the Turin group's models have to prove their worth in order to win sales. The Punto is being launched into a different and much more competitive market than was the Uno. Its success is of fundamental importance to Fiat.

David Lane



## WORLD CAR INDUSTRY 7

The steepest continental European car market slump in recent memory has at last begun to apply the brakes to a resurgent UK motor industry.

After hovering at an unchanged 12.5m units in 1992, western Europe's car market fell by nearly 18 per cent in the first seven months of this year. The UK market, which went into recession much earlier, has gone against the Euro-trend: up by 9.1 per cent in the same period. But even with most forecasters expecting sales to grow this year to between 1.75m and 1.8m - from 1992's 1.58m - it is too small to sustain output from some UK car plants in the face of such a sharp drop in demand on the Continent.

In gross output terms, statistics from the Society of Motor Manufacturers (SMMT) and Central Statistical Office continued to paint a buoyant picture of expansion during the first half of this year. They showed car production up by 8.19 per cent, to 742,991, over the period, compared with the 686,747 during the same period last year.

But in July, for the first time in many months, the figures showed a fall in total output by 2.42 per cent, to 115,648. Most tellingly, production for export was down 16 per cent - the first significant drop of the year.

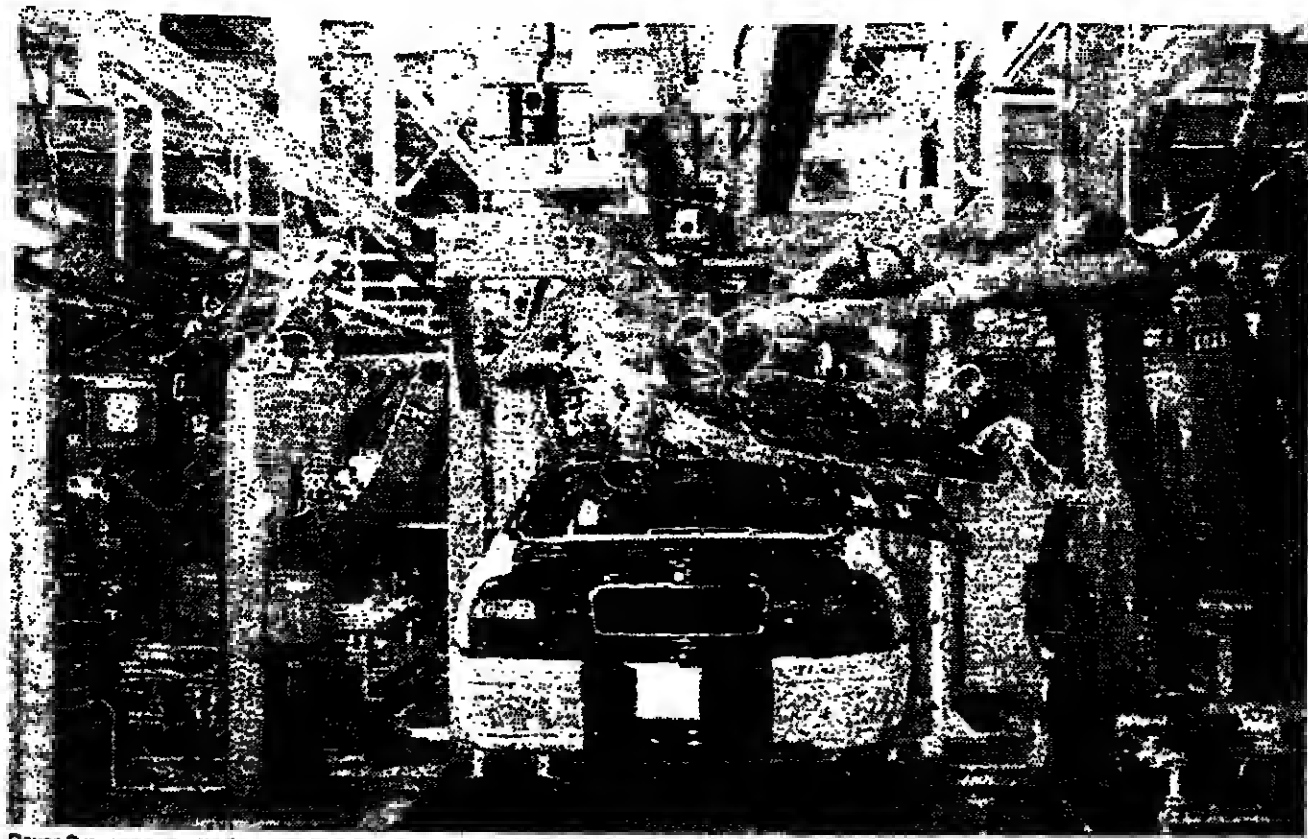
Commenting on the figures, Mr Roger King, SMMT public affairs director, says that "overall production levels are clearly at risk in the face of shrinking exports."

Even so, production would have to slump by nearly one third in the remaining months of this year if the 1992 total of 1,291,880 were not to be exceeded.

Most analysts still expect a final outturn approaching 1.4m - which would be the highest since 1975 and a far cry from the 890,000 produced in 1982, in the depths of the previous recession.

Nevertheless, production at the traditional UK "big four", Rover, Ford, Vauxhall and Peugeot Talbot, is now contracting - in some cases sharply. Growth this year is entirely the result of the start of UK production by Toyota and Honda, together with an expansion into two-model production by Nissan's plant at Sunderland.

The most recent statistics for manufacturers' production, covering the first five months of this year, show that Nissan's



Rover Group was continuing to maintain that it had no plans for cutbacks at the Cowley facilities near Oxford, where it has recently invested £200m

## ■ UK MOTOR INDUSTRY

## European slump applies the brakes

Western Europe's car market fell by nearly 18 per cent

output of Primera and the small Micra was up 43 per cent to 115,244, compared with a year ago.

Toyota produced 9,727 Carina E saloons and hatchbacks after starting production at Burnaston, in Derbyshire, at the turn of the year. Honda, which started production at its Swindon plant at about the same time, produced 10,886 of its Accord model in the same period.

That contrasts with a 3 per cent production drop at Rover, 5.2 per cent at Vauxhall, 12.3 per cent at Ford and a production drop of nearly 16 per cent at Peugeot Talbot.

By July, the actual cutbacks were starting. Most significantly, Peugeot decided to end its UK production of the 405 family saloon, its market mainstay. Having become a two-model plant only last January - when the new 306 hatchback entered production - Ryton is now building only the 306.

Output has been reduced to

1,600 cars a week from 1,900 and 300 jobs are being cut.

Vauxhall has begun to cut shifts both at its Astra plant at Ellesmere Port and at Luton, where it produces the Cavalier/Opel Vectra. Ford has taken similar action at Halewood.

Despite its own output also falling back slightly, Rover Group was continuing to maintain in early August that it had no plans for cutbacks at either its Longbridge plant near Birmingham or the Cowley facilities near Oxford, where it has recently invested £200m on modernisation.

On the contrary: Rover, which is now the only European manufacturer to be increasing both volume sales and market share in Europe, maintains that it is exploring ways of increasing output of its Metro and Mini small cars at Longbridge. In the first seven months of this year its total sales in Europe, including the UK, rose by 10.5 per cent to 191,000 and its market share

from 2 per cent to 2.7 per cent. That output has not matched the increase reflects mainly the British Aerospace subsidiary's "lean distribution" efforts - to cut stocks in the supply line between factories and dealers' showrooms.

Although Nissan has changed the balance of its production, reducing the Primera output and increasing the Micra's, it says the downturn in continental Europe should not stop it reaching its target output, from Sunderland, of 270,000 cars this year. Similarly, Toyota and Honda maintain that they are on course to achieve their respective output targets of 36,000 and 32,000 for this year.

Toyota, however, is already speeding up its previously declared, longer-term production targets.

It intends to produce 100,000 cars next year - a year ahead of the original schedule - on the way to 200,000-a-year production in the late 1990s.

DRI/McGraw-Hill, the forecasting group, regards this as conservative. It predicts that by 1998 Japanese "transplant" production in the UK will have reached 800,000 units a year, and that well before then Toyota will have added the smaller Corolla to Carina E production at Burnaston.

Mr Tatsuro Toyoda, Toyota's president, has already indicated that Toyota is "considering" a second model for the plant.

DRI projects that, overall, UK car output will reach a record 2.1m by 1998 and that the UK motor industry will once again be recording a substantial balance of trade surplus after recording deficits of as much as £6bn in some recent years.

Competition within the UK market, however, is expected to remain intense and keep profit margins under pressure. The long-sustained market leadership by Ford of Britain, which made a pre-tax loss of

## UK CAR REGISTRATIONS - JANUARY-JULY 1993

	July 1993			Jul '92			January-July 1993			Jan-Jul '92		
	Volume	Change%	Share%	Volume	Change%	Share%	Volume	Change%	Share%	Volume	Change%	Share%
Total market	95,378	+7.0	100.0	100.0	874,411	+9.1	100.0	100.0		874,411	+9.1	100.0
UK produced	15,581	+0.3	45.0	48.1	401,088	+11.2	45.9	45.0		401,088	+11.2	45.9
Imports	19,445	+13.3	55.0	51.9	473,313	+7.3	54.1	55.0		473,313	+7.3	54.1
Japanese makes	3,070	+6.1	3.7	8.8	106,656	+17.2	12.2	11.3		106,656	+17.2	12.2
Ford group	7,302	-17.7	20.5	26.9	192,753	+4.2	22.1	23.0		192,753	+4.2	22.1
- Ford	7,196	-18.2	20.3	26.6	189,701	+4.1	21.7	22.7		189,701	+4.1	21.7
- Jaguar	106	+30.5	0.3	0.3	3,052	+10.6	0.4	0.3		3,052	+10.6	0.4
General Motors	5,515	+51.0	23.5	16.7	156,287	+8.9	17.8	18.2		156,287	+8.9	17.8
- Vauxhall	8,206	+82.0	25.2	16.9	151,467	+7.4	17.3	17.5		151,467	+7.4	17.3
- Lotus	4	-73.3	0.0	0.1	71	-76.9	0.0	0.0		71	-76.9	0.0
- Saab*	108	+16.0	0.3	0.3	4,729	-3.8	0.5	0.6		4,729	-3.8	0.5
Rover**	5,878	+19.7	16.8	14.9	119,997	+18.0	13.7	12.9		119,997	+18.0	13.7
Peugeot group	3,224	-4.5	9.2	10.2	107,573	+13.9	12.3	11.8		107,573	+13.9	12.3
- Peugeot	2,143	-8.7	6.1	7.0	70,286	+8.8	8.0	8.1		70,286	+8.8	8.0
- Citroen	1,081	+7.9	3.1	3.0	37,287	+25.7	4.3	3.7		37,287	+25.7	4.3
Volkswagen group	2,865	+1.8	7.7	7.9	51,023	+1.8	5.8	6.2		51,023	+1.8	5.8
- Volkswagen	1,807	+2.8	5.1	5.3	33,560	+3.7	3.8	4.0		33,560	+3.7	3.8
- Audi	380	-37.8	1.1	1.8	10,400	+6.2	1.2	1.2		10,400	+6.2	1.2
- SEAT	201	+101.0	0.6	0.3	4,109	+7.4	0.5	0.5		4,109	+7.4	0.5
- Skoda*	307	+70.6	0.9	0.5	2,354	-29.2	0.3	0.5		2,354	-29.2	0.3
Renault	1,392	-17.7	8.9	5.0	46,181	+23.2	5.4	4.7		46,181	+23.2	5.4
Nissan	1,229	+26.3	3.5	2.9	40,451	+18.3	4.5	4.3		40,451	+18.3	4.5
Toyota	630	+52.5	1.8	1.3	26,194	+42.9	3.0	2.3		26,194	+42.9	3.0
Volvoo*	502	-9.2	1.4	1.7	21,535	-8.6	2.5	2.8		21,535	-8.6	2.5
Fiat group	1,258	+43.1	3.5	2.9	20,836	+29.5	2.3	1.9		20,836	+29.5	2.3
- Fiat	1,205	+41.2	3.4	2.4	18,602	+32.5	2.2	1.8		18,602	+32.5	2.2
- Lancia	4	-60.0	0.0	0.0	289	-3.7	0.0	0.0		289	-3.7	0.0
- Alfa Romeo	47	-33.8	0.1	0.2	1,045	-5.5	0.1	0.1		1,045	-5.5	0.1
BMW	568	+26.2	1.8	1.4	18,374	-5.7	2.2	2.6		18,374	-5.7	2.2
Honda	576	+3.3	1.6	1.6	14,045	+7.3	1.6	1.6		14,045	+7.3	1.6
Mercedes-Benz	388	+50.0	0.9	0.6	10,225	-11.4	1.2	1.5		10,225	-11.4	1.2
Mazda	148	-52.3	0.4	0.9	8,507	-5.6	1.0	1.1		8,507	-5.6	1.0

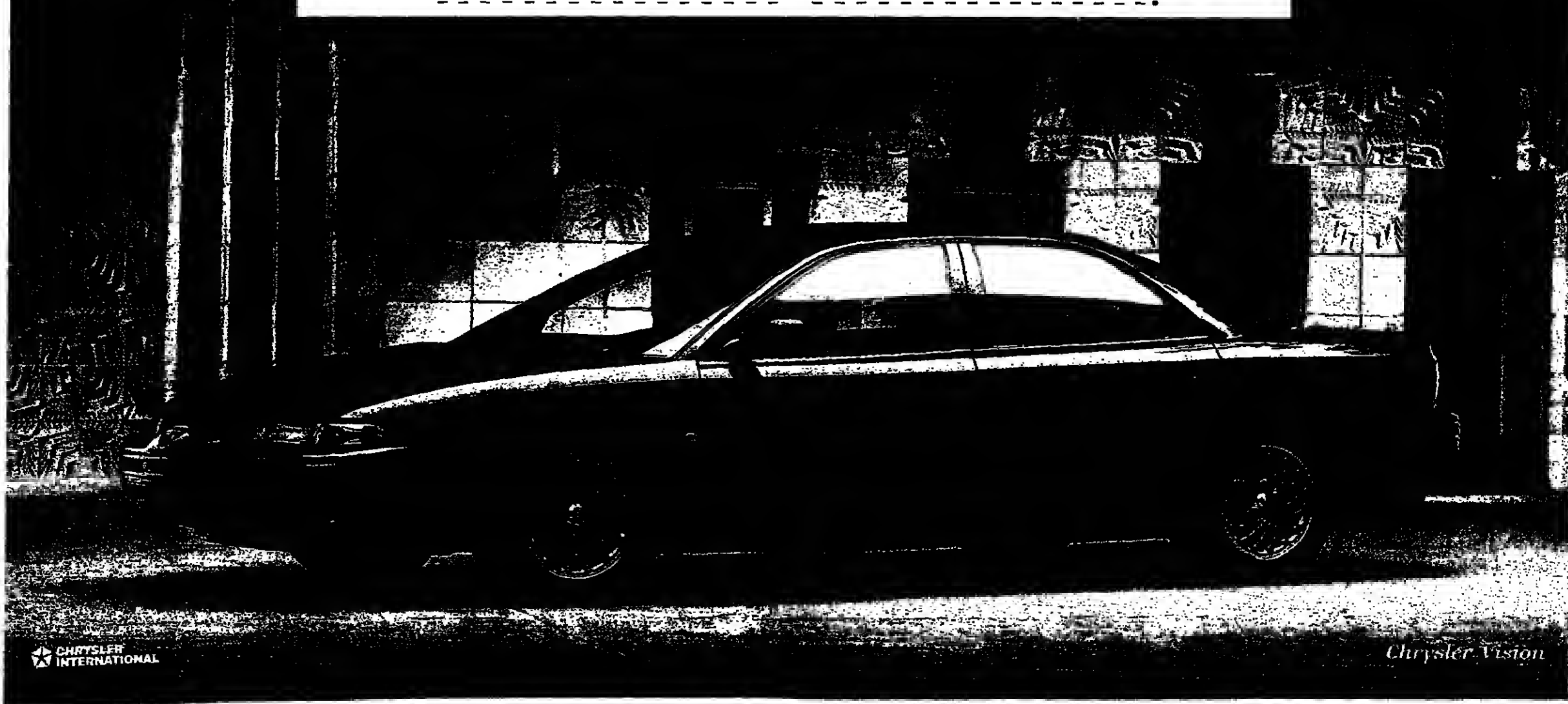
\*84 holds 50% of Sub Automobile and has management control. \*\*Includes Range Rover/Discovery. Honda holds 20% of Rover. \*VW holds 31% of Skoda and has management control. \*Renault and Volvo are listed through cross shareholding. Source: Society of Motor Manufacturers and Traders



John Griffiths Vauxhall has begun to cut shifts at its Ellesmere Port and Luton plants

(Once you've seen the remarkable new Chrysler Vision you'll be able to fill in this blank yourself.)

"....."



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"a 'tour de force' from Chrysler's designers." *Auto Bild* simply calls it "one of the best cars in the world."

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## WORLD CAR INDUSTRY 8

## ■ NORTH AMERICA

## A greater mood of optimism

AMERICA'S Big Three vehicle manufacturers - Ford, General Motors and Chrysler - which have spent a decade losing market share in their own country to nimble Japanese rivals, are at last hitting back hard and winning market share gains.

The revival of Detroit still has a long way to go, and special factors may be making the Japanese typically weak at present, yet there is a greater mood of optimism in the US motor industry now that at any time since the early 1980s.

That was when the Japanese began not only importing vehicles to the US but also manufacturing in America, setting up so-called "transplant" assembly plants, for the most part making cars rather than trucks. This helped boost their share of the US car market to more than 30 per cent by the early 1990s.

The improved mood in Detroit stems partly from the fact that the US vehicle market generally is recovering from the deep recession of 1991-2, and sales growth is running

Japan when starting from scratch, has just moved into profit after three years of production.

Detroit has also been much more effective than the Japanese in taking advantage of a trend by consumers to buy pick-up trucks, mini-vans or four-wheel-drive Jeep-style vehicles rather than cars. This segment of the market is likely to account for about 40 per cent of total US sales this year, up from about 36 per cent in 1992.

Many of these vehicles have substantially higher profit margins than cars. Ford's four-wheel-drive Explorer and Chrysler's Jeep Grand Cherokee have been especially successful.

Japan's share of the light truck market has dropped from a peak of 20.4 per cent in 1986 to 13.5 per cent in 1992. Factors behind this drop include the sheer strength of the US competition; the fact that imported trucks have long faced a 25 per cent tariff; and dumping allegations by the Big Three, which have held back Japanese mini-van sales.

In both the car and truck markets, Japan's competitive position has been hurt by the rise in the value of the yen relative to the dollar since the start of this year.

This has forced the Japanese manufacturers to push up prices in the US much more aggressively than their Detroit rivals.

This trend shows no sign of changing in the near term. General Motors, for example, recently announced that it would seek to raise its market share during the 1994 model year by increasing its overall vehicle prices by an average of only 1.8 per cent - well below the expected rate of inflation.

Still, Detroit can hardly afford any complacency. For one thing, exchange rates are unpredictable and the dollar could strengthen against the yen. And some observers suspect that the Japanese manu-

### The Big Three still have some way to go to match the efficiency of the Japanese

facturers may, to some degree, be deliberately soft-peddling in the US market so as to stave off tougher trade sanctions by the Clinton administration.

Whatever the case, the Japanese remain formidable competitors and the Big Three still have some way to go to match their manufacturing efficiency and reputation for quality.

None has further to travel than General Motors which is still losing money in North America and remains extremely inefficient compared to the rest of the industry. However, the plan it put in place last year to return North America to profit is starting to bear fruit.

GM says it is on target to break even - on an earnings before interest and tax basis - in North America this year, compared to its loss of \$4.5bn in 1992. Factors include plant closures, which are bringing its manufacturing capacity more in line with demand, job cuts and a drive to reduce its biggest single cost item, raw materials.

But restoring its North American operations to healthy profits is likely to take several years, and will depend in no small measure on it producing an attractive range of new vehicles which consumers are keen to buy.

Martin Dickson

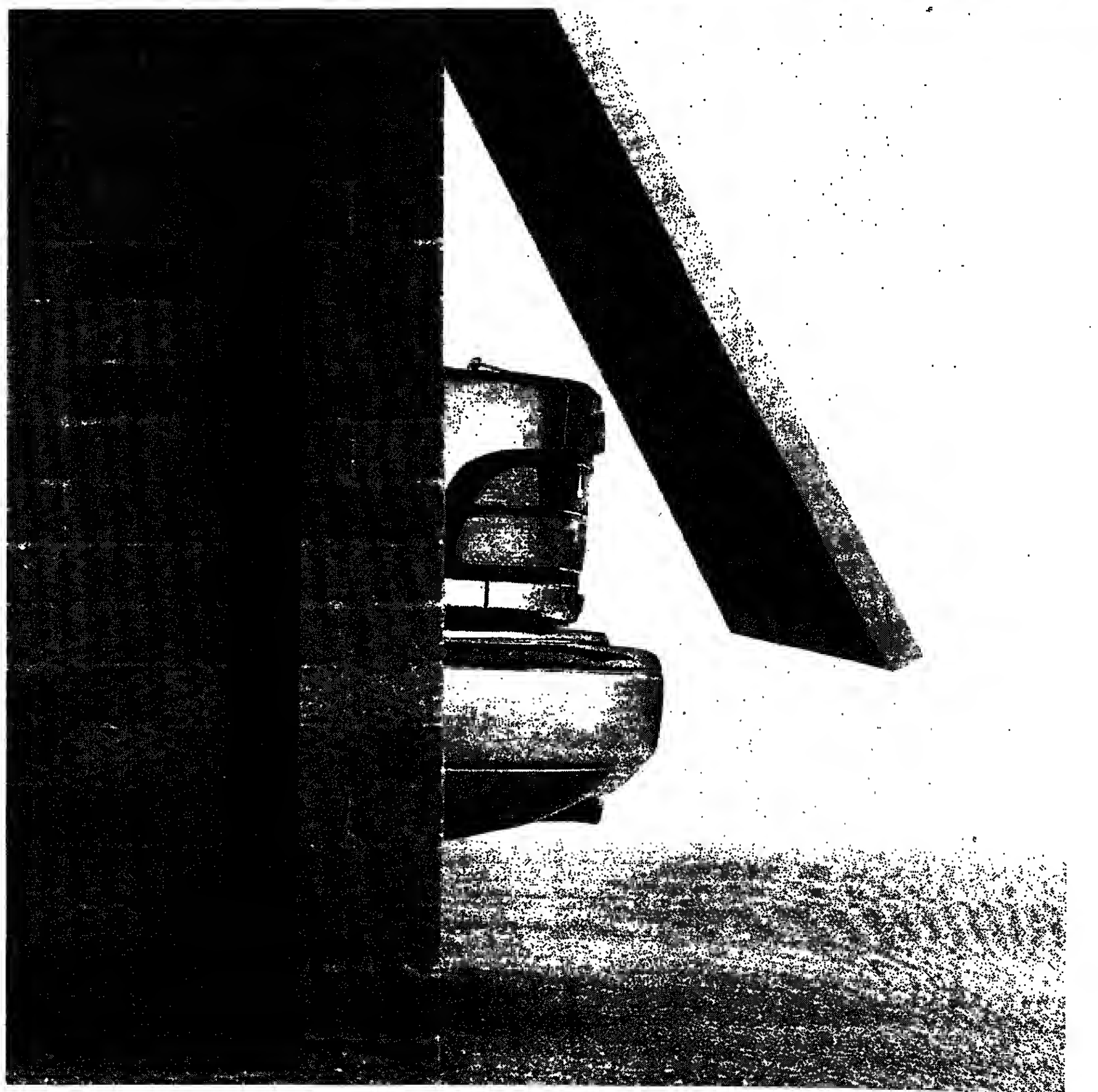
#### LEADING WORLD VEHICLE MAKERS 1992

Manufacturers	Cars	Commercial vehicles*	Total production
1. General Motors	5 053 000	1 886 000	6 939 000
2. Ford	3 804 000	1 924 000	5 728 000
3. Toyota (†)	4 097 000	1 253 000	5 350 000
4. Volkswagen (†)	3 291 154	201 101	3 492 255
5. Nissan	2 318 000	776 000	3 094 000
6. Fiat	2 000 945	276 394	2 277 339
7. Renault	1 760 743	334 031	2 094 774
8. Chrysler	800 427	1 254 743	2 055 170
9. PSA Peugeot-Citroën	1 842 300	207 500	2 049 800
10. Honda	1 721 501	132 531	1 854 032
11. Mitsubishi (†)	1 142 000	533 000	1 675 000
12. Mazda	1 139 914	278 990	1 418 904
13. Suzuki (†)	852 427	334 454	1 186 881
14. Hyundai	725 618	157 596	883 214
15. Mercedes-Benz	541 541	289 322	830 863
16. Vaux (Lada)	620 000	61 000	681 000
17. Isuzu	119 000	481 000	600 000
18. BMW	598 142	-	598 142
19. Fiat Heavy	423 458	146 628	570 086
20. Kia	322 977	230 803	553 780
21. Rover	346 353	20 864	367 217
22. Volvo	302 949	51 977	354 926
23. Daewoo	238 800	30 953	269 753
Total of the 23	33 868 000	10 839 000	44 707 000
World total	34 838 000	13 117 000	47 955 000

Notes: \*OEMs estimate figures are consolidated groups including overseas production including Daihatsu and Hino (Volkswagen), Audi + Seat + Skoda (including Proton Malaysia) including Renault (India). Source: Cumulative Construction, Fong's Automobiles.



The Dodge Intrepid is one of a very different-looking LH series of mid-sized vehicles which have proved a big hit for Chrysler. The other vehicles in the series are the Chrysler Concorde and the Eagle Vision



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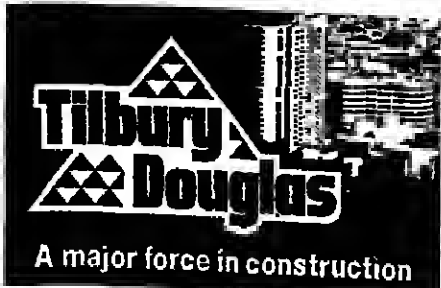
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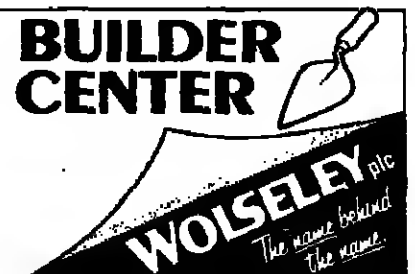




# FINANCIAL TIMES COMPANIES & MARKETS

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Thursday September 9 1993



## INSIDE

### CMB falls 7% and warns of decline

CarnaudMetalbox, the Anglo-French packaging group, announced a first-half 7 per cent fall in net profits and warned of a similar decline for the second six months. Page 20

### Black cloud over Grolsch

Grolsch, the Dutch brewer, blamed changing weather patterns in Europe for a 4.8 per cent fall in first-half results from Ft 14.9m to Ft 14.2m (\$7.7m). Page 20

### Frosty family feud

Canada's McCain family, which owns the international frozen-foods group, is riven with discord. Page 21

### TNT reports loss

TNT, the Australian transport group which saw five directors resign last week after a disagreement, announced an operating loss after tax and abnormal items of A\$256.7m (\$170m) for the year. This compares with a A\$195.4m deficit. Page 22

### Nikko Kyodo gets five-year itch

Nikko Kyodo, the Japanese mining and oil refining group, is carrying out a major restructuring of Gould, its US electronics subsidiary and the world's largest manufacturer of copper foil, which it bought five years ago in one of the largest Japanese takeovers of the time. Page 22

### Housebuilder returns to black

George Wimpey, Britain's second largest housebuilder, moved back into profit in the first half and said that an upturn in UK housing sales earlier this year would be reflected in second-half profits. Page 24

### Locusts plague Pakistan

Locusts are breeding dangerously fast in the deserts of Pakistan. According to government estimates, at least 47,000 bands of locusts have been eliminated in spraying over an area of 12,000 sq km. But that is only a small portion of the massive task at hand. Page 28

### Good rises in Latin America

Latin America's emerging markets performed well last week, with Colombia and Venezuela in particular coming to the fore, while there were also good rises in the Philippines, Malaysia and Portugal. US funds have been flowing into Latin America recently, seeking out underperforming markets. Back Page

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IBC	28	Unilever	19
IBM	26	Unilever	21
IRI	19	Unilever	21
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### Chief price changes yesterday

FRANKFURT (DM)		Paris	
Rieser	963.5 + 15.5	CarnaudMetalbox	196.5 - 10.5
Schering	438 - 9	GTM-Entrepren	502 - 13
QBE	1050 - 20	Geophysique	880 - 20
Heldel 2m	1130 - 14	Pare Rescomet	439 - 11
Hochst	354 - 15	UAP	615 - 14
Unipol-Hel	825 - 10		

NEW YORK (\$)		TOKYO (Yen)	
Baxter Int	2229 - 36	Daikin	1710 + 20
Johnson & John	3375 - 14	Daikin Japan	4220 + 100
Oxford Health	849 - 5	Daikin	308 - 9
Pacific Int	35 - 44	Mitsubishi Oil	1030 - 20
US Healthcare	434 - 2	Nikko Kyodo	510 - 35
Werner-Lambert	638 - 2	Mitsubishi Steel	380 - 7
PARIS (FFr)			
Rieser	556 + 12		
Interchimie	556 + 12		

LONDON (Pence)		Birmingham	
Alcon	138 + 8	Burnfield	124 - 28
Baird	53 + 12	CarnaudMetalbox	2298 - 100
Baynes (C)	147 + 12	Clive Bros	415 - 14
Baxter TV	33 + 3	Knight	35 - 3
Ex-Lands	156 + 10	London Spot Oil	1035 - 54
Gardiner	75 + 4	MAIC	115 - 7
Greenway	145 + 10	P & O	619 - 49
Int Builders C	99 + 11	Pharmec	88 - 12
Uster	138 + 7	Portals	502 - 21
OGC Int	22 + 4	Regent Inc	180 - 5
Reuter	51 + 214	Sider	174 - 7
UK Land			
Falls			

## Milan stock market expects boost from flotation of BCI and Credito Italiano

### IRI to sell bank stakes in public share offering

By Robert Graham in Rome

IRI, the Italian state holding company, has abandoned plans for the trade sale of its majority stakes in Banca Commerciale Italiana and Credito Italiano in favour of public share offerings. The move was widely welcomed yesterday, with Milan bourse operators suggesting the decision to opt for a public flotation could give a much needed boost to the stock market. IRI's shares in the two banks - it has 87 per cent of Credito and 57 per cent of BCI - will also be floated on foreign stock exchanges.

However, IRI will shortly select

advisers and a lead manager. The absence of any indication on pricing resulted in cautious trading yesterday in the two shares on the Milan bourse, with BCI shares down 2.1 per cent and Credito up 1.3 per cent.

IRI is under pressure to complete the deals as soon as possible to offset its increasingly parlous financial position. It has borrowings of L72,500bn (\$45.5bn) and losses this year are expected to reach L6,300bn. Last October Merrill Lynch was hired to advise on the sale of Credito with the aim of finding either a large domestic financial institution or a foreign buyer to absorb part or all of IRI's holding. Since then no Italian financial institution has shown much enthusiasm for what is Italy's sixth largest bank.

Some 27 foreign institutions



Romano Prodi, head of IRI, which declined to place a notional value on its holdings in the banks

were also sounded out. Estimates of the total value of the bank also varied from L6,000bn to L10,000bn while the stock market capitalisation is around L2,000bn. By opting for a public flotation, IRI is now seeking wider ownership for the two banks. This

includes clients and employees who will be given preference along the lines of some UK privatisations. The government is expected to encourage the formation of a small hard core of domestic institutional investors. The government first announced plans to sell IRI's

stake in Credito some 12 months ago. At the time BCI was considered a better candidate for privatisation; but then the government was still thinking in terms of matching BCI with the state owned Banco Nazionale di Lavoro. A BNL-BCI alliance is now formally excluded.

## Unilever buys Kraft ice cream unit

By Frank McGuire in New York and Guy de Jonquieres in London

UNILEVER, the Anglo-Dutch consumer products group, is set to become the largest US ice cream maker with the purchase of the ice cream business of Kraft General Foods, part of Philip Morris, the tobacco and food group.

The Kraft business has annual sales of almost \$500m. Added to Unilever's existing US ice cream sales of about \$200m, it will give the Anglo-Dutch group nearly a fifth of a market worth more than \$3bn a year.

Terms of the deal were not disclosed, but Mr John Campbell, of stockbrokers NatWest Securities in London, estimated it was worth about \$300m.

Kraft said last month that it had received an approach from an unnamed company interested in the business, which sells ice creams and frozen yoghurts under brands including Breyers, Sealtest, Knudsen and Light N' Lively.

Acquisition of the business will introduce Unilever into the US bulk ice cream sector, the largest part of the total market.

Until now, Unilever has focused in the US entirely on

"Impulse" ice creams, which are sold for immediate consumption. It has recently acquired popular US brands, including Gold Bond and Klondike.

Though Breyers and Sealtest are among the best-known US brands, their market share and profitability have deteriorated sharply in recent years, and Unilever is likely to have to invest substantially to restore their position. Growth of supermarket sales of bulk ice creams have slowed to 2 per cent in the past year. But the value of KGF's ice cream sales fell slightly, while operating margins have narrowed to about 2 per cent.

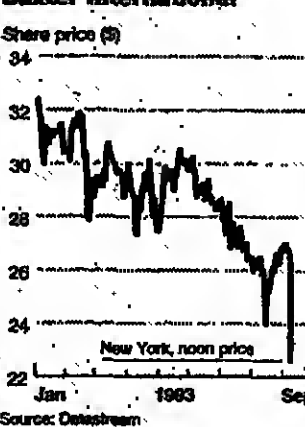
The weaker performance partly reflects increased competition which Breyers has faced from newer "super-premium" ice creams, which sell at higher prices. Though KGF has launched its own super-premium line, results have been disappointing. Sealtest's sales have fallen 10 per cent to \$63m in the past year and it has been forced to cut prices. The KGF ice cream business employs about 2,000 people and has plants in six US states.

Unilever is Europe's biggest ice cream producer, with about 40 per cent of a market worth \$4bn a year.



Raymond Vanit has been named president and chief executive of Kraft's merged group, Page 20

### Baxter International



Source: Datastream

## Health group issues profit warning

By Karen Zagor in New York

SHARES in Baxter International tumbled nearly 15 per cent yesterday morning following a third quarter profits warning by the US hospital supplier.

Baxter, which achieved notoriety earlier this year when it pleaded guilty to co-operating with the Arab boycott against Israel, said its third-quarter earnings would fall below last year's \$148m, or 63 cents a share. Analysts had predicted earnings of more than 67 cents.

The company also plans to cut senior management salaries by as much as 25 per cent and to freeze other employee salaries.

On Wall Street, Baxter's shares dropped 37¢ to \$22.4, just above their 52-week low of \$22.2, in active mid-session trading. The news sent shock waves through the medical sector, with Oxford Health Plans down 36¢ to \$64 and Pacificare Health Systems plunging 44¢ to \$30.6.

Baxter blamed weak market conditions for its second consecutive earnings shortfall, in July,

the company warned that second-quarter operating income would decline. Mr Vernon Loucks, chief executive, said revenue growth had slowed throughout the industry, reflecting changes in health care spending in anticipation of health care reform.

"Baxter did show revenue growth of 6.5 per cent for the second quarter of 1993," he said. But Baxter's problems run deeper than the industry's woes. The company has lost business from private hospitals and the US government in the aftermath of

the Arab boycott debacle. Last month, the Department of Veterans Affairs banned Baxter from bidding on new contracts for up to one year.

Although sales to US government agencies brought in only about \$130m of the company's \$8.5bn 1992 sales, the ban further damaged Baxter's credibility.

To make matters worse, some of Baxter's biggest customers, including Premier Hospitals Alliance, are cutting the amount of hospital supplies they buy from Baxter.

## Soros moves into US property with \$634m Travelers purchase

By Richard Waters in New York

A US property fund set up earlier this year by Mr George Soros and advised by Mr Paul Reichmann, former head of Olympia & York, was close yesterday to completing its first investment, a \$634m purchase of properties from Travelers, the US insurer.

Also yesterday, Soros' Quantum Fund revealed a plan to set up a new UK property fund to take on its interest in a \$500m joint venture with British Land, the UK property group, which was announced in June. Shares in the new fund, denominated in sterling, could eventually be listed separately, Soros said.

The disposal by Travelers marks the insurer's first bulk sale of properties since an announcement in February that it intended to shed \$2bn of prop-

erties acquired as a result of defaults on commercial mortgages.

Quantum Realty Fund, the Soros US property fund launched in March, was expected to complete the purchase of a block of 47 properties, representing 6m sq ft of commercial space and 6,000 residential units. In a statement, Mr Reichmann said the deal brings "strong current cashflow as well as the prospect for significant capital appreciation as the property markets recover later in the decade".

Quantum Realty will put up around \$20m, with a further \$90m being provided by Mr Soros and various Soros family investment vehicles. The rest has come from a bridging loan, which will be refinanced by an issue of mortgage-backed securities. The leverage in the fund could be

increased in the future by a further securitisation in the form of a real estate investment trust (REIT). Mr Soros said. Reits have enjoyed a boom on Wall Street this year, with share prices of existing companies rising sharply in the first four months and new Reits raising \$1.8bn through public offerings in the first half.

Following the Travelers deal, the Quantum Realty Fund will still have \$500m of equity to invest in properties.

Meanwhile, the Quantum Fund said the plan to spin off its UK property interests would not alter the terms of its relationship with British Land, in which the investment fund owns 11m shares. The new UK fund will hold Quantum's £250m (\$377m) interest, together with an additional £40m-£50m to be committed by Mr Soros.

## P&O interim results disappoint

By Roland Rudd in London

PENINSULAR and Oriental Steam Navigation Company yesterday disappointed the London market with lower than expected profits before disposals. The shares fell 49p to 619p.

Lord Sterling, chairman, said: "It would have been abundantly clear to anyone who read our annual report that the UK recovery is slower than anticipated. It is a delusion to think we can surge ahead while Germany and France remain deep in recession."

The company almost doubled pre-tax profits to £291.8m (\$440m), from £151.2m, on the back of increased sales of businesses in the half year to the end of June. Turnover rose to £2.7bn (from £2.5bn).

Pre-tax profits before disposals

fell 11 per cent to £80.1m, mainly due to a big fall in profits from container and bulk shipping. Gains from the devaluation of sterling and a strong US dollar were more than offset by difficulties in Asia, which were behind shipping's 58 per cent profit fall to £11m.

After the sale of Sutcliffe, the contract caterer, borrowings fell from £1.89bn at the end of December to £1.73bn at the end of June. Net interest payable rose to £68.9m (from £53.8m).

Further disposals are expected to follow yesterday's announcement of the sale of Buck and Hickman, a distributor of engineers' supplies, to Charles Baynes for £32.5m.

A scrip dividend is also offered to preserve cash. Its value of 39p compares with an ordinary dividend of 24p. For each share

offered under the issue Barclays de Zoete Wadd is offering cash of 35.28p. If all shareholders take up the scrip dividend alternative the group would retain cash of £163m, representing a saving on the 1993 dividend of £128m and a further £36m of advance corporation tax.

Lord Sterling said the total dividend is expected to remain unchanged at 30.5p.

The group is considering appealing to the European Commission over the Department of Trade and Industry's refusal to allow it to work with other ferry operators on the Dover-Calais route to head off the competition from Eurotunnel. Lord Sterling said: "The DTI's decision defies rational explanation."

Earnings per share rose to 40.1p (from 20.9p). Lex, Page 15, London SE, Page 29

## Dip for Total reflects resilience

By John Riddling in Paris

TOTAL, the French oil group, has announced a modest decline in net profits from FF1.95bn to FF1.85bn (\$316m) for the first half of 1993, underlining its resilience to recession in Europe. Turnover dipped from FF68.76bn to FF67.85bn in what the company described as a difficult economic environment. But operating income profits rose slightly from FF3.4bn to FF3.49bn.

"It was a good result given the economic background," said Mr John Wellemeyer, oil analyst at Morgan Stanley. He forecast net profits of about FF3.6bn for the full year.

Mr Serge Tchuruk, Total chairman, said the results reflected a varied performance across core businesses and that the benefits of its "refocusing" strategy, launched in 1990, would start to be felt from next year. He said the group had begun to seek alliances in gas distribution and electricity supply.

In the first six months, the exploration and production division suffered from the decline in crude oil prices from \$19 per barrel to about \$18.20. As a result, operating income fell from FF1.31bn in the first half of 1992 to FF1.19bn.

Oil production, excluding the Middle East, fell from 154,000 barrels per day to 135,000 b/d. Gas production also fell, from 972m to 941m cubic feet per day. Total said that the falls reflected the impact of disposals.

Its 1992 forecast for production growth of 50 per cent between 1990 and 1995 remained unaffected, the group said.

The chemicals division also saw profits decline, because of European recession and the downturn in the car and construction industries. Operating profits fell from FF652m to FF753m.

The trading and Middle East division increased operating profits from FF304m to FF434m, reflecting an improvement in shipping rates in the first six months of the year.

Mr Tchuruk also raised the prospect of a further sale of the French state's holding. The government has said it wants to maintain its stake in Total at about 5 per cent, but the effects of capital increases during the year have raised this to 8 per cent. The sale of the surplus 3 per cent, valued at about FF2bn, could be made at any time, he said.

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## INTERNATIONAL COMPANIES AND FINANCE

## Philip Morris links Kraft and Jacobs Suchard units

By Guy de Jonquieres, Consumer Industries Editor

PHILIP MORRIS, the US tobacco and food company, is to merge Kraft General Foods Europe and Jacobs Suchard, its two main European food businesses. The link-up creates a group with sales this year of about \$9bn in 20 countries.

The group, to be called Kraft Jacobs Suchard (KJS), will be Europe's third largest food manufacturer after Nestlé and Unilever, and will have particularly strong positions in coffee, confectionery and cheese.

Integration of the two businesses, which will be phased over the rest of the year, is designed to improve productivity, cut costs, streamline management, and unify marketing in the face of increasingly

tough competition in Europe, company executives said.

Mr Raymond Viault has been named president and chief executive of KJS. He previously headed Jacobs Suchard, the Swiss confectionery and coffee company which Philip Morris acquired three years ago for \$3.8bn.

Jacobs Suchard has until now operated almost separately from Kraft General Foods Europe, which was formed out of Philip Morris' acquisitions of Kraft and General Foods of the US in the 1980s.

The two businesses' headquarters will be merged in one office in Zurich, Switzerland, and their operations in most countries combined under one management. Mr Viault said the reorganisation would cre-

ate "some redundancies" among the group's 32,000 staff in 20 countries.

He said the merger, which has been under discussion for five months, was expected to achieve some "fairly significant savings," particularly in purchasing, distribution and warehousing.

Germany, where KJS will have annual sales of \$3bn, will be the group's biggest national market, followed by Italy and France. Mr Viault said expanding the group's cheese business in France and central Europe, probably by acquisition, was one of his top priorities.

Frela Marabou, the Norwegian confectionery and snacks manufacturer purchased by Philip Morris last year, is excluded from the reorganisation.

## NTT warns on effects of telephone charges war

By Michio Nakamoto in Tokyo

NTT, the Japanese telecommunications company, yesterday warned that pre-tax profits for the year to next March would plunge 67 per cent to ¥50bn (\$480.7m) if it went ahead with a planned reduction in long-distance rates. The group previously forecast profits of ¥150bn for the period.

Mr Masashi Kojima, president of NTT, made the warning for the parent company. He cautioned that it might even be forced to post a pre-tax loss if it did not raise rates for city calls.

He added, however, that the company planned to maintain its dividend by carrying over about ¥86bn in profits from fiscal 1992. NTT shares yesterday suffered a fall of ¥11,000 to ¥930,000.

## Prudential posts mid-term slip

By Norma Cohen, Investments Correspondent

PRUDENTIAL Corporation, the UK's largest life insurance company, reported interim profits for the six months ended June 30 of £242m (\$365.42m), down from £245m a year ago, but said that underlying profits rose by 14 per cent at current exchange rates.

The company raised its interim dividend by nearly 10 per cent to 4.5p per share.

Profits for the 1992 period were boosted by a one-off gain of £52m resulting from a restructuring of assets in the shareholders' portfolio.

Underlying profits for the current period were aided by a

turnaround in the Prudential's general insurance business which earned £18m against a year-ago loss of £21m. The Mercentile and General Reinsurance business posted its loss for the period to £7m from £25m.

The company has withdrawn from general insurance and has raised premiums in many of its personal lines. Mr Mick Newmarch, chief executive, said the company would remain in personal lines because of the opportunities the business raises for cross-selling of other products. "We are writing this business to give us access to UK households so we can sell them long-term business," Mr Newmarch said, noting that under

half of the Pru's personal lines customers have long-term savings products.

In the UK, which accounts for 80 per cent of the Pru's sales, annual premium sales subsided, reflecting a drop in so-called industrial branch business which requires house-to-house collections of premiums and is expensive to operate.

However, single-premium business jumped to £1.4bn in new business from just over £1bn a year ago, largely due to hefty sales of the company's single-premium, with-profits bond, the Prudence Bond.

Mr Newmarch said he believed the extensive cost-cutting efforts the company had

made in its life division would help it gain market share once new rules on disclosure, required by the UK Treasury, take effect next year. "It's what the new disclosure regime is all about. You have got to demonstrate value to your customers," he said.

The new rules will require companies for the first time to tell prospective policyholders how much of their premiums will be set aside to cover expenses and what the penalties will be if they surrender policies early. Lower costs will allow the Pru to demonstrate that a greater percentage of premiums paid will be invested for the policyholder.

Lex. Page 18

## Blenheim shaken by forecast

By Andrew Bolger in London

SHARES in Blenheim Group plunged 43p to a two-year low of 355p yesterday after analysts sharply reduced their profit forecasts for the acquisitive UK international exhibition organiser.

Analysts said the formerly highly rated stock had suffered a substantial blow to its credibility after BZW, the joint house broker, cut its profit forecast for the second time in three months.

Blenheim, which had seemed to survive the recession better than many other media stocks, suffered this downgrade in

spite of reporting an 18 per cent rise in pre-tax profits to £15.4m (\$23.55m) in the six months to June 30.

Analysts were particularly concerned about the deteriorating situation in France, which accounted for 27 per cent of group trading profit in the first half. For the first time, the group said it might have to discount the charges it levels at trade exhibitions.

The group said there had been some signs of revival in the economies in the US and UK, but those of France and Germany had continued to deteriorate, resulting in flatter overall sales volumes. Next

year's profits will also suffer from the absence of the large biennial Batimat exhibition in France.

BZW cut its profits forecast for the full year from £49m to £45m and for next year from £55m to £43m. Smith New Court, which has long been bearish on the stock, is going for only \$40m next year.

There is considerable irritation in the City that the reduced profit outlook has emerged so soon after the June convertible share issue, by which Blenheim raised £75.8m to fund acquisitions in the US and continental Europe. Details, Page 26

## Bad weather hits turnover at Grolsch

By Ronald van de Krol in Amsterdam

CHANGING weather patterns in Europe were partly to blame for a 4.8 per cent decline in first-half results at Grolsch, the Dutch brewer, which has recently made inroads to Britain and Germany.

Net profit fell to £14.2m (\$7.7m) from £14.5m in the first half of 1992, when a long spell of good weather in north-western Europe, generated

strong beer sales. This year, the weather had been "no better than average". The company blamed this in part for a 7.6 per cent decline in turnover to £139.8m.

It also blamed the lower results on weak economies, especially in Germany, and on the decline of sterling, which depressed turnover from the company's Rüdels subsidiary and from its sales of Dutch-brewed beer destined for the UK market.

Despite these difficult conditions, operating profit rose to £12.4m from £12.2m, reflecting rises in selling prices as well as declines in the prices of raw materials, marketing expenses and excise duties.

However, financial income swung into a negative £13.3m from a positive £12.0m the year before, due to the 1992 cash acquisition of Rüdels and a heavy programme of investments requiring external financing.

## Pricing pressure hurts CMB

By John Riddling

CARNAUDMETALBOX (CMB), the Anglo-French packaging group, yesterday announced a 7 per cent fall in first-half net profits. It warned of a similar decline during the second six months.

The shares closed down FF10.5 at FF198.5.

The company reported net profits of FF750m (\$89.8m) for the first half of 1993, compared with FF749m in the same period last year.

Sales declined 6 per cent to FF11.89bn.

Mr Jürgen Hintz, chairman, said operating profits in the first half were "hit hard by severe pricing pressure in European beverage cans and

some exceptional events in Asia and Africa."

These included problems at its Singapore plant concerning the conversion from steel to aluminium drinks cans, and disruptions to supplies in Africa, particularly in Nigeria where the group's operations suffered from fuel shortages.

The group chairman said: "We are not expecting a net profit improvement for the rest of this year because recessionary pressures in Europe have been worse than expected in recent months and are not likely to ease soon."

In response to the difficult markets, the company said it was planning to cut production

capacity, and would close a plant in Germany this year. Mr Hintz said the group intended to raise prices next year in an attempt to restore falling margins.

Despite the fall in profits and the difficult outlook, Mr Hintz described the figures as a "solid net result".

The company said the downturn during the period had been exaggerated by the impact of currency movements.

Excluding currency factors, net profits would have risen by 3 per cent, rather than declining 7 per cent.

The fall in operating profits, from FF1.23bn to FF974m, would also have been much smaller.

## KHD loss deepens to DM98m

By David Waller in Frankfurt

GROUP losses at Klockner-Humboldt-Deutz, the German engineering group, more than trebled in the first six months of the current year. It said the impact of the recession in Germany had turned out to be worse than expected.

Despite the loss of DM98m (\$61.25m) - up from a DM29m loss in the first half of last year - KHD said it expected to break even for the year as a whole. It said extensive rationalisation measures had led to a permanent lowering of the group's break-even point.

The group will take some DM300m of restructuring costs "below the line" as extraordinary expenditure, reflecting the cost of shedding 2,500 jobs during the year.

Sales for the first six months dropped 21 per cent to DM1.28bn, and order intake fell 23 per cent to DM1.65bn. The drop in domestic demand for machinery was behind these falls, the group said.

The year-on-year fall in orders concealed the fact that the order book itself was 16 per cent higher than at the beginning of the year.

KHD saw no short-term prospect of recovery in the European markets for its motors, and agricultural products such as tractors.

## Gota Bank to spin off problem loans

By Christopher Brown-Humes in Stockholm

GOTA BANK, the Swedish state-owned bank, is to spin off SKR43bn (\$5.4bn) worth of problem loans into a separate bank to facilitate the disposal of its healthy activities before the year-end.

All problem credits valued at more than SKR5m will be transferred to the unit, Retrieva AB, by the end of the year.

Although Retrieva will initially be a wholly-owned company, it is almost certain to follow Securum, the bad loan bank for Nordbanken, in being

split off and taken over by the state.

The Swedish bank support authority, which is overseeing the reconstruction of Gota Bank, said yesterday it had decided to spin off the problem loans to get a better price for the bank's healthy assets, valued at SKR60bn.

It also stressed that Gota's problem loans could be wound down more effectively if they were part of a separate unit.

Details of how Retrieva is to be financed during the liquidation phase were not revealed.

Around 65 per cent of Retrieva's problem loans are linked

to real estate. It will be managing 1,200 properties, around half of which it expects to purchase over the next few years. The long-term aim is to dispose of all the properties, but gradually so as not to depress market prices.

The state has provided SKR15bn in guarantees to help Gota Bank meet minimum capital adequacy requirements during a period of heavy credit losses.

Final bids for the bank's healthy activities, which made a SKR36m operating profit in the first six months, have to be received by September 23.

**SCA**

**Interim Report**  
January 1 - June 30, 1993

Forecast 1993: Earnings after financial net expected to amount to SEK 1,100 - 1,300 M.

Heavy investment within SCA Graphic Paper - new projects representing an investment of SEK 3,000 M approved. To maintain the current level of indebtedness new rights issue of SEK 1,400 M is proposed.

A complete report can be ordered from SCA Corporate Communications, telephone no. +46 8-788 51 00, fax no. +46 8-678 81 30, or from the address below.

**SVENSKA CELLULOSA AKTIEBOLAGET SCA**  
Box 7827, S-103 97 STOCKHOLM, Sweden

SCA in brief, SEK M	1993	1992
Net sales	16,751	15,640
Operating profit	1,057	851
Earnings after financial net	550	94
Earnings per share after full tax, SEK	2.22	0.40
Equity/assets ratio, percent	42	41*
Net debt	12,559	10,799*
Shareholders' equity incl minority interest	18,965	19,091*
Debt/equity ratio, times	0.7	0.6*
Number of employees	27,885	28,658*

\* as per Dec 31, 1992

Prices for securities determined for the purpose of the tendering process and the subsequent tendering process.

SEK	Price	SEK	Price	SEK	Price
0000	20.00	0000	20.00	0000	20.00
0001	20.01	0001	20.01	0001	20.01
0002	20.02	0002	20.02	0002	20.02
0003	20.03	0003	20.03	0003	20.03
0004	20.04	0004	20.04	0004	20.04
0005	20.05	0005	20.05	0005	20.05
0006	20.06	0006	20.06	0006	20.06
0007	20.07	0007	20.07	0007	20.07
0008	20.08	0008	20.08	0008	20.08
0009	20.09	0009	20.09	0009	20.09
0010	20.10	0010	20.10	0010	20.10
0011	20.11	0011	20.11	0011	20.11
0012	20.12	0012	20.12	0012	20.12
0013	20.13	0013	20.13	0013	20.13
0014	20.14	0014	20.14	0014	20.14
0015	20.15	0015	20.15	0015	20.15
0016	20.16	0016	20.16	0016	20.16
0017	20.17	0017	20.17	0017	20.17
0018	20.18	0018	20.18	0018	20.18
0019	20.19	0019	20.19	0019	20.19
0020	20.20	0020	20.20	0020	20.20
0021	20.21	0021	20.21	0021	20.21
0022	20.22	0022	20.22	0022	20.22
0023	20.23	0023	20.23	0023	20.23
0024	20.24	0024	20.24	0024	20.24
0025	20.25	0025	20.25	0025	20.25
0026	20.26	0026	20.26	0026	20.26
0027	20.27	0027	20.27	0027	20.27
0028	20.28	0028	20.28	0028	20.28
0029	20.29	0029	20.29	0029	20.29
0030	20.30	0030	20.30	0030	20.30
0031	20.31	0031	20.31	0031	20.31
0032	20.32	0032	20.32	0032	20.32
0033	20.33	0033	20.33	0033	20.33
0034	20.34	0034	20.34	0034	20.34
0035	20.35	0035	20.35	0035	20.35
0036	20.36	0036	20.36	0036	20.36
0037	20.37	0037	20.37	0037	20.37
0038	20.38	0038	20.38	0038	20.38
0039	20.39	0039	20.39	0039	20.39
0040	20.40	0040	20.40	0040	20.40

**VARD**

**VARDA AS**

**Notice of Extraordinary General Assembly in Vard AS which will take place on Thursday 16 September 1993 at 1800hrs. at Shippingklubben, Haakon VII's gate 1, Oslo 1, Norway.**

**Agenda items:**

1. Election of an assembly chairman and two shareholders to endorse the minutes of the assembly.
2. Registration of the shareholders in attendance.
3. Consideration of the Board's proposal to increase the share capital by NOK 6,900,000 from NOK 74,389,337 to NOK 81,289,337 through the issuance of 3,000,000 new shares. The share capital increase will occur through a new issue with a subscription price of NOK 50 per share. The Board proposes that the shareholders relinquish their preference to subscription rights in accordance with Securities Law § 4-2.
4. Consideration of the Board's proposal to amend the by-laws regarding the Company's share capital.
5. Election of Director(s) to the Board.
6. Miscellaneous.

The Board's proposal with a background for the proposals in point 2 and 3 above and the Company's Annual Report for 1992 is available at the Company's office and will be forwarded upon request. Inquiries can be made to Laila Scheel, tel. 22.73.28.22.

A group that ostensibly represents 10% or more of the share capital has requested to have point 4 included on the agenda.

The Board of Directors of Vard AS  
Høfsten 15, P.O. Box 244  
Skøyen, 0212 Oslo, Norway

Oslo, 8 September 1993

**European Investment Bank**

**Italian Lira 200 Billion Floating Rate Notes**  
and  
**Italian Lira 300 Billion Floating Rate Notes**  
due March 1996

**Notice to the Holders**

Notice is hereby given that the Notes will carry an interest rate of 9.10538 per annum for the period 07.09.1993 to 07.12.1993.

- ITL 115,132 per ITL 5,000,000 nominal
- ITL 1,151,324 per ITL 50,000,000 nominal

Luxembourg, September 9, 1993

**State Bank of New South Wales**  
London Branch

**Japanese Yen 3,000,000,000**  
7 per cent Bull Notes due 1993

**Japanese Yen 3,000,000,000**  
7 per cent Bear Notes due 1993

Guaranteed by the Government of New South Wales

In accordance with Condition 5 of the Terms and Conditions of the Notes, the Redemption Amounts payable on 16th December, 1993 will be ¥105,280,000,000 per ¥100,000,000 Bull Note, and ¥12,180,000,000 per ¥100,000,000 Bear Note.

**Bankers Trust Company**  
London Agent Bank  
6th September, 1993

**Ssangyong Cement Industrial Co., Ltd.**  
(Incorporated in the Republic of Korea with limited liability)

**Notice to the Holders of the Outstanding U.S. \$70,000,000 3 percent Convertible Bonds due 2005 (The "Bonds")**

of  
**Ssangyong Cement Industrial Co., Ltd.**  
(the "Company")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that the Company has issued to the holders of its common stock and of its preferred stock and to employees rights to subscribe for up to 4,193,106 shares of common stock of the Company.

Such rights will be issued pursuant to the Company's Board of Directors resolution passed on 30th June, 1993.

A further notice will be given to the holders of the Bonds of any resulting adjustment to the conversion price in relation to the Bonds.

**Ssangyong Cement Industrial Co., Ltd.**  
9th September, 1993

**ISTITUTO BANCARIO SAN PAOLO DI TORINO**  
LONDON BRANCH

**£7,000,000,000**  
Floating Rate Depositary Receipts Due 1994

Issued by The Law Debenture Trust Corporation plc, evidencing debentures to payment of principal and interest in respect of deposits with Istituto Bancario San Paolo di Torino, London Branch.

Interest rate: -3.65%  
Interest period: from -9.9.1993 to -9.3.1994  
Interest Amount per £50,000,000 nominal due 9.3.1994: £905,000

Agent Bank:  
The Long-Term Credit Bank of Japan, Limited  
Tokyo

**Leveraged Capital Holdings**

Weekly net asset value per 06.09.93 was US\$ 62.72

Listed on the Amsterdam Stock Exchange

Information:  
MicroPartners Capital Management  
Rokin 15, 101, 102, Amsterdam.  
Tel: +31-20-6111410.

**BANK OF GREECE**

**US\$300,000,000**  
Floating rate notes 2003

The notes will bear interest at 4.0625% per annum for the period 9 September 1993 to 9 March 1994. Interest payable on 9 March 1994 per US\$1,000 note will amount to US\$20.43.

Agent: Morgan Guaranty Trust Company  
**JPMorgan**

**SBAB**

**Swedish Bank of America**

**US\$200,000,000**  
Floating Rate Notes due 1995

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the December 1993 month period ending 8th 3.35% per annum. The interest accruing for such three month period will be U.S. \$87.15 per U.S. \$100,000 Note and U.S. \$87.15 per U.S. \$100,000 Note against presentation of Coupon Number 6.

Union Bank of Switzerland  
London Branch Agent Bank  
6th September, 1993

**HENDERSON UNIT TRUST MANAGEMENT LIMITED**  
(Member of IMRO and Laund)

Announce with effect from 8th September 1993, HENDERSON TR JAPAN GROWTH FUND has been merged following an approved Scheme of Amalgamation into HENDERSON JAPAN TRUST.

Holders of Henderson TR Japan Growth Fund income units will receive 0.390688 income units in Henderson Japan Trust for every income unit held.

071 410 4114

**BankAmerica Corporation**

**US\$500,000,000**  
Floating Rate Notes  
Due September 1995

For the period from September 9, 1993 to December 9, 1993 the Notes will carry an interest rate of 3.625% per annum with an interest amount of US\$9.05 per US\$100,000 principal amount of Notes payable on December 9, 1993.

**Bank of America NT & SA**  
London - Agent Bank

**Ssangyong Cement Industrial Co., Ltd.**  
9th September, 1993

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## INTERNATIONAL COMPANIES AND FINANCE

## Moody's returns Chrysler debt to investment grade

By Martin Dickson  
in New York

CHRYSLER, the US carmaker, reached a significant milestone on its path back to financial health when Moody's Investors Service, the credit information agency, restored its debt to investment grade status after 31 months in the speculative category.

The upgrading concerns some \$13bn of borrowings. Moody's is one of the two leading credit rating agencies. Its upgrade should allow Chrysler Financial, the group's financial services business, to raise money on somewhat finer terms, although the debt market is already pricing the subsidiary's borrowings at close to investment status.

However, Chrysler also needs an investment grade rating from Standard & Poor's, the other leading agency, to achieve a significant reduction in interest costs on some of its other borrowings.

S&P announced in June it was reviewing the company for a possible upgrade to investment status. However, Mr Scott Sprinzen, an S&P analyst, said yesterday the agency would not finish its review until Chrysler had completed this autumn's negotiations with the United Auto Workers on a new labour contract.

Chrysler fell to junk bond status early in 1991 when it was entering a severe industry recession with a weak product line-up and strained balance sheet. Many analysts ques-

tioned whether it could survive as an independent company. Over the past 18 months it has clawed its way back to financial health, thanks to asset sales, cost-cutting and a range of hot-selling new products.

Moody's, which raised Chrysler's senior debt two notches to Baa3 from Ba2, said the ratings remained under review for a further upgrade. This would depend partly on the outcome of the labour negotiations.

It said yesterday's action "recognised the improving trends in Chrysler's operating performance" and the potential for "further earnings and cash flow advances which will strengthen the company's balance sheet and debt-protection measurements".

## European spice units in plan for new venture

By Richard Waters  
in New York

THE European herb and spice businesses of two US food processing companies and a German herb and spice concern are being combined to create a venture with sales of around \$200m a year. Rabobank, the Dutch bank, will finance the venture, known as European Spice Partners, and take a 25 per cent stake.

The deal brings together the European herb and spice operations of McCormick, a Maryland-based specialist in spices and seasonings, and the larger CPC International, a corn refiner and maker of grocery products based in New Jersey whose products include Knorr soups, Hellmann's mayonnaise and Mazola corn oil.

Each will own 37.5 per cent of the new joint venture, with the remaining shares held by Rabobank. The terms of the deal were not disclosed.

The new company would account for around 15 per cent of the \$1.4bn European market for retail and catering herbs, the companies said.

The two US companies' other European operations, including those in "industrial" herbs and spices (those sold to food processors or to fast-food companies), will remain separate, although both companies said further co-operation in Europe may follow.

CPC, which last year generated \$3.6bn of its \$6.8bn sales in Europe, said: "We are bringing the infrastructure and the experience of operating in Europe; McCormick is bringing its experience in the herb and spice business."

The new venture will be based around McCormick's retail and catering herb and spice operations in the UK, Switzerland and Germany. The company also has licensing operations in Finland and Spain.

CPC will contribute its own herb and spice business in Germany and Ireland and an unspecified amount of cash.

The transaction is subject to approval from the European Commission.

## Papers highlight McCain divisions

By Bernard Simon in Toronto

TOP management at McCain Foods, the International frozen-foods group owned by Canada's McCain family, is riven with discord, according to documents filed in a New Brunswick court yesterday.

The documents were submitted by Mr Wallace McCain, the group's joint chief executive, in support of his efforts to overturn a resolution by McCain's board last month to oust him as president and chief executive by September 30. The court is due to hear Mr McCain's application later this month.

Mr McCain's action is directed primarily against his older brother and co-CEO, Harrison, whom he alleges has persistently undermined a plan

put in place two years ago to provide for an orderly succession at the top of the company.

Both McCains are in their mid-60s. Two other brothers have died, but several of the four men's sons are also active in the business. Wallace's son Michael runs McCain's US subsidiary. Until the present dispute surfaced, Michael was widely assumed to be a front-runner for the CEO job when his father and uncle step down.

McCain, with annual sales of about C\$30n (US\$2.2bn), is the world's largest potato-chip producer, with 20 factories in North America, Europe and Australia. Its other products include frozen juices and pizzas.

McCain's business has

prospered even during the recession. But the documents filed yesterday show that the family has become increasingly pre-occupied in recent years with the succession issue.

Harrison wrote to one of his nephews last September that, "Wallace and I are no longer a single team running the McCain Group. A happy situation which for 30 years saw us agreeing appropriate courses of action, mutually supporting each other and letting each have a veto over important decisions has been substantially fractured."

Protracted negotiations over the past six months to solve the succession dispute have come to naught. They have culminated in Wallace making a C\$1bn offer to buy the

McCain shares not already held by his branch of the family.

Wallace and Harrison each own one-third of the McCain group's shares, with the rest divided among the families of their two deceased brothers.

As an alternative, Wallace has also proposed splitting the company in two roughly equal parts, with him acquiring the operations in North and South America and Asia, which he presently oversees. Harrison would take over the UK and European businesses.

Harrison has so far rejected these overtures and, instead, has spearheaded the efforts to remove Wallace from his present position. Harrison is due to file his statement of defence to Wallace's claims by September 13.

## Valeo resists sector decline

By John Ridding in Paris

VALEO, the French maker of car components, showed resistance to the downturn in the European car market by announcing first-half net profits of FF933m (\$68m), a fall of 6.1 per cent over the same period last year.

The company said the result was achieved despite the depressed European car market and reflected improved operating profit margins outside Europe and the benefits of its cost-cutting programme. The results included extraordinary charges of FF223m.

Sales during the first six months of 1993 fell by 4.6 per cent to FF10.59bn. Valeo said that most of this decline was the result of exchange rate movements and was achieved against a background of an 18 per cent fall in the European automotive market.

Valeo ascribed the relative strength of sales to expanding technology and the growing internationalisation of its operations.

The company said the continued depressed outlook for the European car market meant that it would pursue its policy of industrial and com-

mercial adjustments and would seek to strengthen its position in growth markets such as Asia and the US.

The company's balance sheet strengthened during the period. At the end of June, net consolidated debt stood at FF1.77bn compared with FF2.15bn at the beginning of the year.

The debt to equity ratio declined from 30 per cent to 23 per cent during the same period.

Spending on research and development during the first half was FF531m, while capital expenditure was FF636m.

## IBM PC arm sees rise in sales

THE IBM Personal Computer Company, formed a year ago as an independent unit within IBM, expects total sales volume to increase by 45 to 50 per cent in 1993 as a whole after growth of a similar magnitude in the first eight months of the year, the head of its non-American activities, Mr Bill McCracken, said, Reuters reports from Munich.

Mr McCracken said that the unit would show a profit in its first business year but gave no detailed figures.

## Brazilian steel deal probe

By Bill Minchberger  
in Sao Paulo

BRAZILIAN government officials were yesterday discussing anti-trust implications of the acquisition of Cosipa, the recently privatised Brazilian steel producer, by Usiminas.

If approved by the government, the sale would give Usiminas, itself privatised in 1991, control over 61 per cent of Brazilian output in flat rolled steel and all of its output in heavy steel plates, said Mr Rui Coutinho de Nascimento, president of the Administrative Council for the Defence of the Economy (CADE).

Mr Coutinho was yesterday discussing the situation with Brazil's minister of mines and energy, Mr Paulino Cleto.

The acquisition of Cosipa by Usiminas could be annulled by CADE, the justice ministry agency responsible for anti-trust investigations, decides that the deal would result in over-concentration in the steel industry, said the official.

## TOTAL reports stable first half 1993 results

The Board of Directors of Total met on September 7 to review the consolidated financial statements for the first six months of 1993. In an unfavourable economic environment, operating income and cash flow rose over the period, by +3% and +11% respectively, while consolidated net income and net income after minority interests edged back by -2% and -5% respectively.

Millions of French francs	First half 1993	First half 1992	1992
Sales	67,847	68,735	136,008
Operating income by business segment:			
• Exploration and Production	3,494	3,403	7,310
• Refining and Marketing	1,196	1,315	2,939
• Trading and Middle East	434	304	567
• Refining and Marketing	1,111	922	2,150
• Chemicals	753	852	1,660
Cash flow	5,856	5,287	9,952
Consolidated net income	1,929	1,968	3,063
Net income after minority interests	1,806	1,906	2,847
Earnings per share (FF)	8.4	9.0	13.5

The sales figure reflects a differing performance amongst the Group's business segments. While the average rate of the dollar held stable at FF 5.51 compared to FF 5.48 in first half 1992, crude prices declined from \$19.0/b to \$18.2/b. Oil and gas production dipped temporarily from 637,000 boe/d to 611,000 boe/d due to the disposal of two Canadian subsidiaries involved in exploration and production. Production growth in other areas was not strong enough to fully offset the effects of this disposal. The Chemicals segment's sales declined by 3% in a depressed market, while sales of refined product sales offset part of the sales decline recorded in the other business segments.

Operating income, which increased slightly, benefited from the improvement in Refining and Marketing and the turnaround in the Trading and Middle East segment, which together more than offset the decreases seen in other segments.

The Exploration and Production segment, which does not include oil and gas production in the Middle East, was negatively affected by the decline in the price of crude from \$19.0/b to \$18.2/b. However, the decrease in income was smaller than the combined decline in production and prices. Due to disposals, oil production declined from 154,000 b/d to 135,000 b/d and gas production fell from 972 million cubic feet per day to 941 million cubic feet per day. New developments in the second half will offset these declines, which do not modify the 1992 forecast for strong growth of 50% between 1990 and 1995.

The Trading and Middle East segment benefited from less unfavourable shipping rates in the first six months of the year. Middle East oil production remained stable at 303,000 b/d compared to 305,000 b/d in first half 1992. The results of the uranium segment, which was sold to Cogema in July, are included in the first half figures.

The Refining and Marketing segment confirmed the slight improvement recorded at the end of 1992, which originated more from marketing than from refining margins. In Europe, margins remained weak at \$2.3/b (down \$2.1/b from year). Marketing income advanced thanks to the rationalization of the Group's network. In the United States, Topco's earnings showed

a significant increase as a result of local efforts and a more favorable business climate.

The Chemicals segment was hurt by the recession in Europe, with the slowdown in the automobile and building industries depressing volumes and margins. The segment nevertheless maintained, and in some cases increased its market share, and the operating margin remained above 8%. All of the segment's businesses made profits, with the best performance coming from Huthussion and parais.

Net income after minority interests came to FF 1,806 million compared to FF 1,906 million in the first half of 1992, while consolidated net income was on a par with the year-earlier period (FF 1,929 million versus FF 1,968 million). The increase in minority interests to FF 123 million from FF 62 million mainly reflects the turnaround in the Group's refining and marketing business in the United States.

As in 1992, total exceptional items after minority interests were modest (FF 50 million compared to FF 71 million) and had a limited impact on net income. The capital gains on the disposal of the Canadian exploration and production subsidiaries were largely offset by provisions for restructuring and the impact of shutting down certain facilities, notably in the Chemicals segment.

Aside from the Canadian disposals, there were few changes in the scope of consolidation. In particular, the disposal of the uranium business will not be taken into account until the second half. Note, however, that the Group's minority interest in Petrogal was accounted for by the equity method on July 1, 1992.

Earnings per share declined from FF 9 to FF 8.40, based on fully-diluted shares outstanding at June 30, 1993 of 215.6 million. This figure includes the shares issued to Société Générale in conjunction with last June's FF 1 billion capital increase, but not the shares issued in July to Cogema (for FF 2.5 billion) and Lyonnaise des Eaux-Dumex (for FF 500 million), nor those issued in conjunction with the dividend reinvestment program (which concerned 71% of the 1992 dividend). Together, these issues raised share capital by FF 5 billion and increased shares outstanding to a full diluted 231 million shares.

Cash flow increased by 11% from FF 5,287 million to FF 5,856 million, thereby significantly enhancing the Group's internal financing base.

Gross investments held steady at FF 7,335 million (compared to FF 7,293 million in the first half of 1992), to which should be added the acquisition of a FF 500 million interest in Société Générale following the agreements presented at the Extraordinary General Meeting of June 2, 1993.

The ratio of net debt to equity improved to 28% from 30% at June 30, 1992. This ratio, which was calculated on the basis of equity of FF 49 billion at June 30, 1993, was further improved after the capital increases in July.

Separately, the Board of Directors authorized the French State to sell any portion of the company's share capital in excess of 5%. The State says it wishes to maintain its participation in the company at this 5% level. Such sale may be carried out when and if market conditions are deemed appropriate.



TOTAL, Services aux Actionnaires, codes 47, 92069 Paris la Défense. Tél: 33 (1) 41353290

## ESPÍRITO SANTO FINANCIAL HOLDING S.A.

("ESFH")

(a Société Anonyme incorporated and registered under Luxembourg law)

ESPÍRITO SANTO FINANCIAL HOLDING (NYSE:ESF)

## ANNOUNCES CONSOLIDATED RESULTS FOR THE SIX MONTHS TO 30 JUNE 1993

The consolidated income statement of Espírito Santo Financial Holding S.A. (ESFH) for the six months to 30 June 1993 closes with a net income of US\$ 19.5 million, reflecting an increase of 52.3% over the same period in the previous year.

This increase is due to a higher percentage of ownership in Banco Espírito Santo (BES), higher non-interest income from banking and related activities, improved insurance results, as well as the effects of a strict programme of cost control. At the same time, growth of net income was adversely affected by the strength of the US Dollar against European currencies.

The increase in ESFH's economic interest in BES from an average 16% in the first half to 1992 to 22.5% in the first half of 1993, primarily mirrors the fact that the second phase of the bank's privatisation, during which ESFH significantly extended its participation, only took place at the end of February 1992.

For the commercial banking, merchant banking, stockbroking and fund management activities, non-interest income (for income, gains on trading accounts and investment securities, gains on foreign currency transactions as well as part of other operating income) grew 33% to US\$ 173.8 million for the first half of 1993. This increase substantially offset the

reduction in net interest income resulting from lower spreads. (Interest income rose 3.9% to US\$ 784.6 million while interest expenses increased 12.99% to US\$ 587.8 million). At the same time other expenses for these activities were 0.2% lower at US\$ 191.6 million despite increases in the charges for "Depreciation and Amortisation" and "Goodwill Amortisation" of 20.1% and 18.4% respectively.

For the insurance activities, total income rose 22.9% to US\$ 190.5 million for the first half of 1993 (first half of 1992: US\$ 155.0 million), while expenses rose 16.8% to US\$ 182.6 million for the same period (comparable period in 1992: US\$ 156.4 million). As a result, income before taxes in this area was US\$ 7.9 million compared to a loss before taxes of US\$ 1.4 million for 1992.

In June 1993 a registered public offering of the ESFH's ordinary shares by certain selling shareholders was effected in the US. The total number of ordinary shares sold was 2,650,000. ESFH's shares were admitted to the New York Stock Exchange on 30 June 1993 where they trade under the symbol ESF. ESFH's shares are now listed in three major Stock Exchanges: Luxembourg, London and New York.

## UNAUDITED CONSOLIDATED STATEMENT OF INCOME FOR THE SIX MONTHS TO 30 JUNE 1993

	Twelve Months to 31.12.92	Six Months to 30.6.92	Six Months to 30.6.93
	(Millions of US dollars, except for earnings per share)		
Interest income			
Interest on loans	970.9	437.3	459.9
Interest and dividends on securities			
Trading securities	119.2	48.1	45.4
Investment securities	300.9	134.2	142.2
Interest on deposits with bank	306.3	135.8	137.1
Total interest income	1,697.3	755.4	784.6
Interest expense			
Interest on deposits	937.4	384.1	409.0
Interest on securities sold under agreements to repurchase	102.3	28.9	43.8
Interest on other short-term borrowings	91.0	73.4	101.0
Interest on corporate borrowings and long-term debt	61.0	27.5	27.0
Interest on convertible bonds	14.3	6.9	7.0
Total interest expense	1,206.0	520.8	587.8
Net interest income	491.3	234.6	196.8
Provisions for loan losses	(90.4)	(35.3)	(47.7)
Net interest income after provision for loan losses	400.9	199.3	149.1
Other income			
Fee and commission income	130.6	55.7	75.9
Net trading account profits	33.9	15.4	24.4
Net investment securities gains/losses	53.4	21.3	29.8
Net gains on foreign currency transactions	32.1	18.9	28.5
Insurance revenues	330.1	150.1	184.4
Other operating income	46.0	24.3	21.3
Total other income	626.1	289.7	364.3
Other expenses			
Salaries and benefits	281.0	135.0	143.2
Occupancy cost	14.7	7.2	7.3
Insurance benefits and claims	228.3	103.1	124.5
Insurance underwriting and related expenses	43.9	19.9	24.7
Depreciation and amortization	37.6	16.4	19.3
Goodwill amortization	14.7	6.9	7.8
Other expenses	115.7	59.9	47.4
Total other expenses	735.9	348.4	374.2
Income before income taxes, minority interest and equity in earnings of affiliates	291.1	136.6	139.2
Income taxes	(55.4)	(14.3)	(25.5)
Minority interests in income of consolidated subsidiaries	(199.4)	(110.6)	(94.9)
Equity in earnings of affiliates	1.8	1.3	0.7
Net income	38.1	12.8	19.5
Net income applicable to ordinary share	38.1	12.8	19.5
Earnings per share			
Primary	3.43	1.15	1.76
Fully diluted	3.33	1.29	1.68
Weighted average number of shares outstanding			
Primary	11,099,380	11,099,380	11,099,380
Fully diluted	15,775,673	15,775,673	15,775,673

Notes: 1. The results for the affiliate, Banco Internacional de Crédito, for the six months to June 1993 have been accounted for on an equity basis, since ESFH no longer has majority voting control.  
2. For the six months to June 1992, BES was consolidated line by line and contributed US\$ 691.1 million to "Interest income", US\$ 68.9 million to "Interest expense", US\$ 7.1 million to "Provisions for loan losses", US\$ 10.8 million to "Other income", US\$ 0.7 million to "Income taxes" and US\$ 3.2 million to "Minority interest in income of consolidated subsidiaries".



## INTERNATIONAL COMPANIES AND FINANCE

## Nikko Kyodo in plan to restructure US subsidiary

By Michio Nakamoto in Tokyo

NIKKO Kyodo, the Japanese mining and oil refining group, plans to restructure Gould, its US electronics subsidiary and the world's largest manufacturer of copper foil, which it bought five years ago for \$1.1bn.

Nikko will liquidate Gould and its stock holding company, Nippon Mining US, and transfer Gould's operations to two new companies it will set up in the US.

The move by the Japanese company, which was formed in

December last year through the merger of Nippon Mining and Kyodo Oil, reflects difficulties in turning round Gould.

Gould, which was acquired by Nippon Mining, has suffered a downturn in its main businesses and run up heavy debts. Nikko Kyodo will book an extraordinary loss of \$90bn (\$865m) due to the liquidation of the company. As a result it has revised downwards after-tax profits to \$4bn from \$33bn. The company's shares yesterday fell 8 per cent to \$10.

The US company has had problems with its semiconductor

and defence electronics businesses for a number of years. Nippon Mining has invested about \$100bn in Gould which has chalked up recurring losses of \$40m and debts of \$890m.

Nikko will set up Gould Electronics to take on Gould's copper foil and fuses businesses and Gould Instruments to carry on its measuring instruments operations.

The Japanese company said that it had not changed its view that Gould's businesses were crucial to group long-term strategy.

## Honda put under credit review by S&amp;P

By William Dawkins in Tokyo

THE credit rating of Honda, the Japanese car group, was yesterday placed under review for a possible downgrade by Moody's, the international credit rating agency.

The move was expected, following last month's announcement by Standard & Poor's that it is reviewing the credit ratings of Honda, as well as Nissan and Toyota, because of poor domestic demand and the damage to export price competitiveness inflicted by the yen's strength.

Moody's gave similar reasons for reviewing Honda, which reported a 41 per cent drop in profits in the year to June. Honda's exports form a higher proportion of total sales than is the case for Nissan and Toyota.

The agency said it would examine the group's ability to use its US and European plants to offset the erosion of its price competitiveness outside Japan. It would study the implications of this strategy for Honda's domestic manufacturing and employment base and assess the outlook for new car launches.

## TNT losses mount as directors quit

By Nikki Tait in Sydney

TNT, the Australian transport group which saw five directors resign last week after a boardroom disagreement, yesterday announced an operating loss after tax and abnormal items of \$356.7m (US\$171.1m) for the year ended June, on an equity-accounted basis. This compares with a \$195.4m deficit 12 months earlier.

However, the large loss stemmed partly from some sizeable abnormal items. TNT

said that its operating loss before these items, but after tax, stood at \$444.7m, compared with a loss of \$100m in 1991-92.

Before tax, the company made a small operating profit of \$14.2m, in contrast to last year's deficit of \$475m.

Last year TNT's revenues fell from \$8.06bn to \$5.52bn. The company said this was due to the flotation of TNT Freightways in February 1992, and the creation of the international express delivery business GD

Express Worldwide as a joint venture in October 1991.

Abnormal items, after tax, amounted to \$212m, up from \$36.4m in the previous year. Included in these charges were a write-down of future income tax benefits, to comply with new accounting standards; unrealised foreign currency losses; provisions related to the carrying value of the Sydney Monorail; and a further, previously-announced provision related to GD Express Worldwide.

TNT announced yesterday that Mr Morley Koffman had resigned from the board due to personal commitments and his inability regularly to attend board meetings in Australia, although he will remain non-executive chairman of TNT Canada.

Mr Morley Koffman is the sixth director to quit recently. Last week, Sir Peter Abeles, TNT's co-founder, and four other board members left after a disagreement about future company strategy.

## New chairman shows legal cool

THE loss of six board directors in as many days, the announcement of a \$256.8m bottom-line loss, and the need to grapple with more than \$1bn worth of balance sheet debt, might seem like a severe headache for anyone. But Fred Miller, former senior partner of a Sydney law firm and now faced with the unenviable task of leading Australian transport conglomerate TNT out of its troubles, was playing it cool yesterday.

"If I could be assured of as much fun as I've been having recently, I'd stay on forever," the new chairman remarked, with only a hint of sarcasm, when the question of his own tenure was raised.

Shareholders may be slightly less sanguine. While the past week's boardroom upheavals at the transport group have helped to clarify the future strategy, analysts have few doubts that there is an uphill task ahead. TNT shares, which were trading at over \$3 in the late 1980s, now stand at \$1.38. Dividends were axed last year, and are unlikely to restart before 1995.

Perhaps the least of TNT's problems are now in the boardroom. Last week's departure of Sir Peter Abeles, the rag-to-riches tycoon who arrived from Hungary in 1949 and quickly built up the Albrun trucking company which later merged with Thomas Nationwide Transport, marks the end of an era.

Sir Peter, colourful and controversial, once ruled TNT in autocratic style, but stepped down as managing director last year. His dramatic departure from the board last week - along with four other directors



Keeping a low profile: New managing director David Mortimer

followed disagreements over how the group should tackle its parlous balance sheet. The net result was to leave control firmly in the hands of Mr Miller and TNT's new, lower profile managing director, Mr David Mortimer.

Yesterday, Mr Miller indicated that some of the boardroom vacancies will be filled, but that the total number of directors would probably shrink.

Much more delicate, even without Sir Peter's distracting influence, is the question of how TNT addresses its debt burden. According to Mr Mortimer, net debt on the balance sheet stands at around \$1.12bn. More than \$400m falls due for repayment in the current year, and a similar amount in fiscal 1995.

Mr Mortimer's solution centres on a continued asset sale programme, which has already raised some \$420m, and which should bring in another \$420m over the next 12

months. On top of that, Commonwealth Bank of Australia last week provided a new \$352m facility, and TNT has said that it is "actively exploring opportunities for a significant capital raising". Mr Mortimer is not inclined to talk about timing or numbers - but rumours of some form of quasi-equity offering in the \$450m range have circulated recently.

Will that suffice? "Fiscal 1994 has never been the problem," said one analyst at Baring Brothers yesterday. "The question has always been 1995. With the CBA facility, they're some way towards helping the situation."

The third challenge is operating performance. Here, analysts saw some grounds for encouragement in the latest figures. The large bottom-line losses contained some hefty abnormal items, and TNT was quick to stress that there was a slim \$14.2m operating profit before these charges (on an equity-accounted basis). This

compared with a \$475m operating deficit in the previous 12 months.

But, examined more closely, the results concealed some mixed performances. On the plus side, the Australian freight and transport operations were back in the black, while the domestic freight operations in Germany, Italy and the UK held their ground and contributed satisfactorily. The same could not be said for the Spanish business, whose deterioration was blamed largely on the economy. Meanwhile, TNT's share of the losses at GD Express Worldwide, its 50 per cent-owned international express freight venture, stood at \$48.3m before abnormal items.

On the last front, TNT says that an eight-part restructuring plan is being implemented, aimed at cutting costs and improving efficiency. The objective is to eliminate losses by June 1995. Whether that is possible remains to be seen.

The final piece of good news, meanwhile, was a positive contribution from Ansett, the airline business owned jointly by TNT and Rupert Murdoch's News Corporation. Accordingly, TNT is no longer in a hurry to leave the business, saying that its 50 per cent holding is "not considered for sale," although the company does back plans to bring new investors into Ansett. In fact, Mr Miller was keen to emphasise the point: "Ansett is not causing TNT any problem at the moment," he said firmly, seeming relieved to be spared one headache at least.

Nikki Tait

## Kittaka seeks court protection

By Emiko Terazono in Tokyo

KITAKA, a Japanese chain store operator, has filed for protection under the bankruptcy law, becoming the second convenience store operator to seek court protection in the past three months.

Unlike other retailers, Japan's convenience stores have held up well against a background of sharp falls in consumer spending. However, increasing competition and poor summer weather have

started to hurt some convenience store operators. Although not stock market listed, Kittaka's Kei-Mart convenience store chain is one of the large scale national chains, with 1,088 outlets.

According to Teikoku Data-bank, a private credit research agency, the company has liabilities totalling \$33bn (\$317m). Teikoku said Kittaka suffered from intensive competition. In July, Nishi Mart, also an unlisted convenience store chain, filed for court protection

after expanding its operations too quickly.

Meanwhile, two leading supermarkets have revised down their profit estimates following a long rainy season and an unusually cool summer.

Ito-Yokado, said annual pre-tax profits would remain flat at \$97.5bn rather than a 2 per cent rise to \$99.5bn, while Nichi expects annual pre-tax profits to fall 17 per cent to \$20bn rather than a 4 per cent increase to \$25.2bn.

## HK and China Gas 19% ahead

By Simon Davies in Hong Kong

HONG KONG and China Gas, Hong Kong's monopoly gas supplier controlled by the Lee family's Henderson Investment, has increased first-half net profit 19 per cent to HK\$50.2m (US\$7.7m) up from HK\$42.2m in 1992.

Turnover was HK\$1.68bn, up from HK\$1.53bn, due to a steady increase in Towngas sales. The company is paying an interim dividend of 12 cents a share, up from 10 cents in 1992.

Hong Kong Gas recently completed Phase II of its new Tai Po plant, which, according to Mr Lee Shau-kee, chairman, will provide sufficient capacity "to meet demand until the early 2000s".

## Air NZ profits advance as route revenue climbs

By Terry Hall in Wellington

AIR New Zealand yesterday announced a 21.3 per cent increase in profits to NZ\$139.5m (US\$76.6m) for the year ended June, helped by higher revenue on its routes to Asia, the US and Europe.

Directors said that while the airline continued to outperform most of its international competitors, returns were still less than needed to appropriately reward shareholders and finance growth.

The profit was some NZ\$15m higher than analysts had been expecting, and the improvement was unexpectedly helped by abnormal gains of NZ\$4.7m. Last year the airline reported abnormal losses of NZ\$13.1m. Air NZ, whose major share-

holders are Brierley Investments and Qantas, reported operating earnings of NZ\$140.3m, against NZ\$134.3m. Equity accounted losses of associates were NZ\$4.5m, against NZ\$2.8m.

Directors said that the group was budgeting for further growth in passenger traffic on Asian routes. However, it expected little if any growth on internal routes or services to Australia and only modest growth in the UK, Europe and US traffic.

The company said it had successfully handled an increase in 8.9 per cent in additional capacity.

The dividend is being maintained at an unchanged six cents a share, bringing the total to 10 cents this year.

## Lufthansa in deal with Varig

DEUTSCHE Lufthansa has signed a co-operation agreement with the Varig, the Brazilian airline, Reuter reports from Frankfurt.

Mr Joergen Weber, chairman, said: "For Lufthansa, the agreement with South America's biggest airline is a further step on the way to a tight global network of professional partnerships."

The two companies planned to offer an additional flight between Frankfurt and Brazil, meaning each that airline would offer a total of six flights per week between the two regions.

This means that there would be a daily non-stop flight to Sao Paulo as well as five flights to Rio de Janeiro, Deutsche Lufthansa said.

## CARNAUDMETALBOX

## 1993 INTERIM RESULTS

CarnaudMetalbox net earnings declined 7% with sales down 6%. In local terms, excluding currency translation effects, net profits increased 3% and turnover grew 2% over last year's record period.

This solid net result was driven by improvements in tax and financial planning.

The operating profit was hit hard by severe pricing pressures in European Beverage Cans and some specific events in Asia and Africa. The rest of our businesses were able to offset weak markets and deteriorating prices with their accelerated cost reduction and productivity efforts.

Result highlights	1st half 1993	1st half 1992	% Change	Excl. currency impact
Turnover	11,896	12,627	-6%	+2%
Operating Profit	974	1,232	-21%	-13%
Net Attributable Profit	509	549	-7%	+3%

Throughout this difficult period, the Group's focus remains on driving its programme of fundamental manufacturing improvements to keep raising quality, lowering the cost base and enhancing the competitiveness for the years to come.

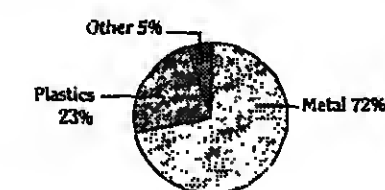
The Group has also made good progress against its strategic business priorities: Eurosteel, Health & Beauty and Asia Pacific.

Turning to the outlook for the second half 1993, CarnaudMetalbox President and Chief Executive Officer, Jürgen Hintz said:

"We can no longer count on an improvement of this year's net results. The recessionary pressures in Europe have been worse than expected in recent months, and are not likely to ease soon.

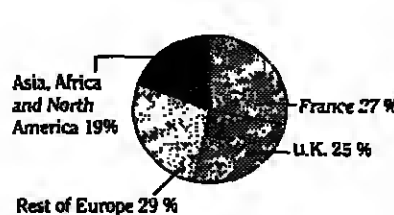
These pressures may well offset our internally generated progress for the rest of this year."

Focused on metal and plastic packaging

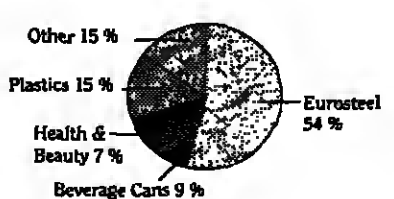


CarnaudMetalbox employs more than 32,000 people at 173 factories in 34 countries

Geographic breakdown



Sector Breakdown



Financial information:  
Virginia Rutherford  
153, rue de Courcelles 75017 Paris  
Tel: (33-1) 44 15 68 47 - Fax: (33-1) 43 80 21 02

## NOTICE OF REDEMPTION

To the Holders of  
REPUBLIC OF CHILE  
Floating Rate Bonds Due 1996  
and  
Floating Rate Bonds Due 1997

Redemption Date: September 27 1993

Notice is hereby given that the Republic of Chile (the "Issuer") has elected to redeem on September 27, 1993, the "Redemption Date", pursuant to the provisions of the Bond Subscription Agreement, dated as of January 23, 1991 (the "Bond Subscription Agreement"), among the Issuer, the financial institutions listed on the signature pages thereto, Chemical Bank (as successor by merger to Manufacturers Hanover Trust Company), as fiscal agent (the "Fiscal Agent"), and Chemical Investment Bank Ltd. (as successor by merger to Manufacturers Hanover Limited), as paying agent, (i) all of its outstanding Floating Rate Bonds Due 1996 (the "Series A Bonds") at a redemption price for each Series A Bond equal to the sum of (x) 100% of the outstanding principal amount of such Series A Bond on the Redemption Date and (y) accrued and unpaid interest from March 26, 1993 to the Redemption Date of \$5,132.73 per \$250,000 outstanding principal amount of such Series A Bond (collectively, the "Series A Redemption Price") and (ii) all of its outstanding Floating Rate Bonds Due 1997 (the "Series B Bonds"), and together with the Series A Bonds, the "Bonds") at a redemption price for each Series B Bond equal to the sum of (x) 100% of the outstanding principal amount of such Series B Bond on the Redemption Date and (y) accrued and unpaid interest from March 26, 1993 to the Redemption Date of \$6,216.16 per \$250,000 outstanding principal amount of such Series B Bond (collectively, the "Series B Redemption Price"). The Series A Redemption Price and the Series B Redemption Price will become due and payable on the Redemption Date upon presentation and surrender of the Bonds (together with all unmaturing interest and principal coupons appertaining thereto) to Chemical Investment Bank Ltd. or Kredietbank S.A. Luxembourg as paying agents with respect to the Bonds (collectively, the "Paying Agents"), at their respective addresses set forth in this Notice. Interest on the Bonds (and other amounts payable thereunder) shall cease to accrue on and after the Redemption Date.

Bonds, together with all unmaturing interest and principal coupons appertaining thereto, must be surrendered to either Paying Agent listed below.

The method of delivery of the Bonds is at the option and risk of the holder of the Bonds, but if mail is used, registered mail with return receipt requested, properly insured, is recommended. Copies of this Notice of Redemption may be obtained from either Paying Agent listed on the attached schedule, or the Fiscal Agent at 270 Park Avenue, New York, New York 10017, U.S.A., Attention: Helena Lencz.

## REPUBLIC OF CHILE

## CHEMICAL

BY: CHEMICAL BANK, as Fiscal Agent  
MEMBER OF THE SECURITIES AND  
FUTURES AUTHORITY

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The Adelphi 45 Boulevard Royal  
1-11 John Adam Street L-2365 Luxembourg  
London WC2N 6BT England

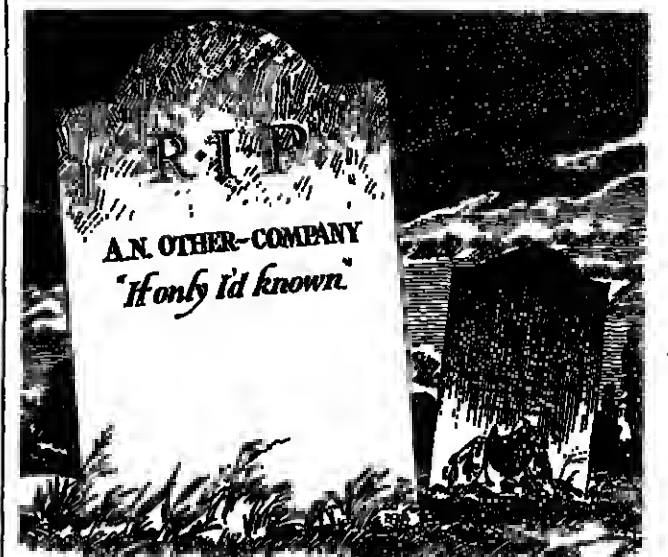
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# Traffic builds up on the Access trading highway

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## COMPANY NEWS: UK

## Portals rises to £14m and mills at full capacity

By Paul Taylor

PORTALS GROUP, the specialist paper and environmental protection and control products group, yesterday reported a 9 per cent increase in interim pre-tax profits and said a strong inflow of orders meant that its mills were working at full capacity.

Pre-tax profits grew from £12.4m to £13.5m in the six months to June 30, on turnover from continuing operations of £91.2m (£83.9m).

Discontinued operations added another £7.23m to turnover in the comparable period.

Earnings per share, fully diluted, increased by 9 per cent to 14.89p (13.68p) and the interim dividend is raised to 5.25p (5p).

Mr John Lloyd, managing director, said Portals was pleased to have increased sales and profits in what remained a challenging commercial environment. Within papermaking he said orders were strong, but noted that "there is a production challenge to meet this demand."

The benefits of last autumn's devaluation had been used to improve competitiveness and boost volumes, rather than margins which already stand at about 20 per cent.

As a result there had been strong order inflows at all three papermaking companies. In particular Portals (Bathford) won three new overseas contracts and was recently awarded the DHSS contract to produce high security covers

for pension and other allowance books, and JR Crompton, the round tea-bag maker, had "an excellent first half."

The security and specialist papermaking operations raised operating profits by 4 per cent to £9.9m on sales up by 10 per cent to £51.6m.

Results from the protection and control division were more mixed. The division lifted operating profits by 14 per cent to £3.5m on sales of £38.6m, an increase of 7 per cent.

Margins were higher than in the first half of 1992, but below the exceptionally high levels of the second half, while orders were maintained. The two core businesses within the division, Houseman and Computer Technology, performed well, but elsewhere the effects were felt of the increasingly difficult market in continental Europe.

The downturn in the French car market hit Ernest's diesel tube business, while Vacuumatic suffered from the impact of the German recession.

Portals ended June with net cash of £7.1m, an improvement of £9.9m in the period although net cash fell to £1m on July 1 after payment of the 1992 final dividend.

The improvement in the cash position came after relatively low capital expenditure of £4.3m, the £1.5m acquisition of Sonoco Packaging Tapes, which manufactures the security threads found in banknotes, and a £1.5m increase in working capital, which were offset by the disposal of Alroil-Flaregas for £3.9m.

## Phoenix Timber gives details of £3m refinancing plan

Shares in Phoenix Timber fell 1/4p to 12 1/4p after announcing further details of its refinancing under which it is raising £2.94m to cut borrowings.

The Co-operation Retirement Benefit Fund has already subscribed £1.4m in £1 loans at par. These are now being offered to existing shareholders on the basis of £1 nominal for 10 shares held at a price of 111p each.

Some £1.5m is being raised by a rights issue of 5-for-8 and 125 for £16 nominal loan notes at 8p per share. The issue is underwritten by CRBF.

At the same time the 25p

shares are being split into 5p ordinary and 20p deferred which are considered valueless.

As a result of the moves CRBF may end up with more than 30 per cent but the Takeover Panel has waived the need to make a full offer. Mr John Bushell, Mr Charles Bebb and Mr Robert Ainsworth are leaving the board. Mr Duncan Saville, who is a director of CRBF, and Mr Lars Ahrell are to become directors.

CRBF said that it considered its investment to be long term and it intends to maintain the listing.

## Charles Baynes advances to £3.27m

By Peter Pearson

CHARLES Baynes, which yesterday announced a rise in pre-tax profits from £1.88m to £3.27m for the first half of 1993, is to expand its distribution side with the acquisition of Back & Hickman from P&O for a maximum of £23.48m cash.

"We love distribution businesses," said Mr John Perkins, finance director, adding that any company would like to acquire well and independently run, cash generative businesses from larger groups returning to their cores.

B&H, a distributor of engineering tools, consumables and equipment in the UK, will keep its present management and will operate on a stand-alone basis within Baynes.

The purchase will be funded by the issue of some 34.5m 5.5p (net) mandatorily convertible preference shares at 100p each to raise about £33.3m net. They are convertible at 69p per share and will be available in an open offer to ordinary shareholders on a 1-for-4 basis. SG Warburg will subscribe for any shares not taken up in the offer.

Mr Perkins said that with an acquisition of this size, Baynes would be the net profits of B&H to service the preference shares. In 1992, it made operating profits of £3.5m on turnover of £48.2m. At the end of 1992, its tangible assets were £20.3m; after deducting dividends to P&O and before an intra-group loan note of about £1.1m that Baynes is also acquiring, assets will fall to £15.5m at October 2.

Mr Perkins said that Baynes' balance sheet would remain strong; after the buy share-holders' funds will stand at about £40m after some £17m goodwill write-off from B&H.

Group operating profits in the half grew to £3.09m (£1.62m) on turnover up at £38.3m (£37.2m). Acquisitions in the period contributed £735,000 and £752m respectively. On an annualised basis continuing, existing, businesses made profits of £2.36m (£1.53m) on turnover of £31.6m. Margins were improved through job losses and Baynes capital expenditure programmes.

The interim dividend is lifted to 0.575p (0.535p), payable from adjusted earnings of 1.65p (1.05p) per share.

## Reaching out for the sky screens

Raymond Snoddy looks behind the figures in the improving results from BSkyB

LAST WEEK when Mr Rupert Murdoch, chairman of News Corporation, was in London we had the glitz, the live box constrictors, all the new subscription television channels and the headline claim that British Sky Broadcasting was in profit.

Yesterday with Mr Murdoch back in Los Angeles, BSkyB, the parent company for Sky Television, released its financial results for the year to June 1993 in a much quieter vein and a raft of numbers and predictions about how the satellite market in the UK was moving.

BSkyB announced an operational profit of £61.5m, a turnaround of £108m on the year. Mr Murdoch's News Corporation holds a 50 per cent stake in the satellite venture and Pearson, owners of the Financial Times, holds 17.5 per cent.

Turnover rose 63 per cent to £380m, 60 per cent of it coming from subscriptions to movie channels and the Sky Sports channel.

The financial structure of BSkyB is complex, bordering on the Byzantine. The operating figure is considered the most realistic basis for judging what is emerging from its start-up phase, however there was still a large pre-tax loss last year because of the interest charged on money invested by the founding shareholders.

Last year's interest on external debt of £100m was £8m but there was also a notional interest figure of £130m on shareholder debt of £1.2bn out of the total of £1.7bn invested in BSkyB so far.

Shareholder interest is accruing. The loans are convertible and could become equity to produce dramatic pre-tax profits if the shareholders decided this was more favourable than the present tax advantages.

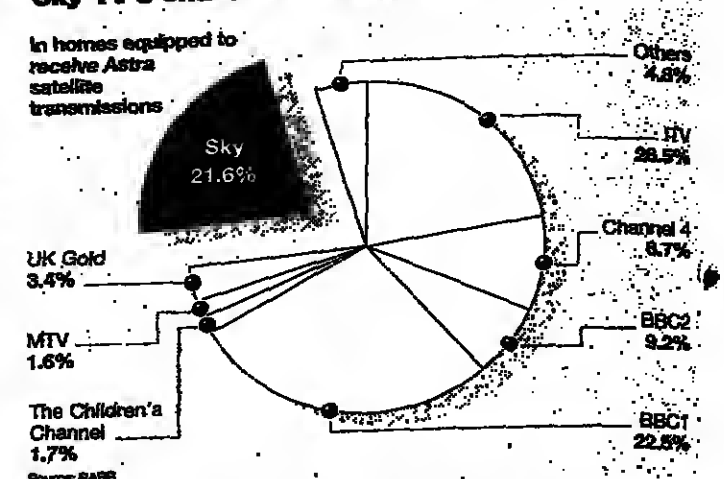
More importantly BSkyB was cash positive throughout the year, did not draw down £34m of available funding and will start distributing cash back to its shareholders from January next year. Apart from News Corporation and Pearson, the main shareholders are Chargeurs de France and the

that the company was now the leading satellite television company in the world after attracting 700,000 new paying subscribers in the year to the end of June.

He was speaking on the day that Sky Sports was showing exclusive coverage of the England versus Poland World Cup qualifying game.

Going beyond the financial year Mr Davey said that 100,000 new movie subscribers were signed up in August and that the total number of subscribers paying for at least one of the premium movie services

Sky TV's share of viewing time



BSkyB's FINANCIAL PERFORMANCE (£m per week)

	Nov'92	Sep'93	Sep'93
Subscription revenue	1.2	4.9	7.0
Advertising & other revenue	0.4	1.1	1.5
Total income	1.6	6.0	8.5
Operating costs	5.1	3.6	4.0
Overheads	6.5	1.8	2.5
Total costs	11.6	5.4	6.5
Weekly operating profit/(loss)	(10.0)	0.7	2.0

Granada group.

Mr Neil Blackley, media analyst at Goldman Sachs, said after the presentation: "I think it looks pretty good for the future. I think this is a very encouraging performance."

More important than how the shareholders treat interest payments is what is happening to subscription revenue, the future heart of the business now that BSkyB is almost exclusively a subscription service.

Mr Gary Davey, deputy managing director of BSkyB, said

had now passed 2m.

BSkyB's internal research presented yesterday showed that sales rising week on week from 11,000 a week in the first week of July to 22,000 a week in the last week of August.

The claimed rise is at least partly reflected in the latest estimates of the size of the UK satellite market by BARB, the official broadcasting ratings organisation owned by the BBC and ITV. BARB said that there were 2.5m dishes, not including cable, at the beginning of August and 2.57m

dishes in place by the beginning of this month.

BSkyB also used BARB statistics to show that although 15.1 per cent of homes in the UK had satellite dishes the figures for men aged 16-34 was 38.3 per cent and 24 per cent for children.

Mr Davey also quoted TGI, an independent researcher, to back his claim that the Sky audience was not disproportionately down-market.

The proportion of Sky homes with income below £9,999 a year was less than both the national average and that of ITV and Channel 4 viewers. Sky homes, the company said, with incomes between £10,000 and £24,999 and above £25,000 were all above the national average and ITV and Channel 4.

After hearing the presentation Mr Blackley said there was a growing danger that BSkyB "could become so dominant in the pay television market that cross-media ownership will become a serious political issue."

Yesterday BSkyB also confirmed that it would launch pay-per-view television - charging for individual events - sometime next year, although a starting date had not been decided.

"We have the technology and we have the ambition," Mr Davey said. A second Sky Sports channel will start in time for the English cricket team's winter tour of the West Indies and work continues on the possibility of launching a Sky arts channel sometime next year.

## Scotia looks for £30m from listing

By Clive Cookson, Science Editor

SCOTIA Holdings, a pharmaceutical company built on sales of evening primrose oil, will be floated on the London stock market next month with an expected capitalisation of about £160m.

The Scotia board yesterday approved final arrangements for the flotation, which is co-ordinated by Kleinwort Benson. According to the pathfinder prospectus, issued today, the company aims to raise about £30m based on a share price between 280p and 290p.

Dr David Horrobin, chief executive, said most of the proceeds would be used to fund the final development of six drugs now undergoing clinical trials. They included treat-

ments for cancer, arthritis, heart disease and complications of diabetes.

Dr Horrobin, whose background is in academic medicine, has followed a clear strategy ever since he founded the company - then known as Efmol - in 1979. He quickly established a revenue stream by selling nutritional supplements made of seed oil from the evening primrose plant; sales were promoted by clinical studies showing the oil's health benefits over a wide range of problems from alcoholism to arthritis.

This income financed research and development of prescription drugs based mainly on "essential fatty acids", the beneficial chemicals in evening primrose oil. Scotia's first drug, Epogam,

received a UK license in 1988 for treating the skin disorder eczema. The company has since received approval for Efmol (for breast pain) and Elafith (for seborrhoeic dermatitis, another skin disease).

The company has distribution agreements with international pharmaceutical groups - notably Searle, a subsidiary of Monsanto, in the UK. Total sales of Scotia's pharmaceutical products in the year to June 30 1993 exceeded £20m, of which the company received £7.4m. Over-the-counter sales were worth a further £5.5m.

Scotia had made a pre-tax profit of £1.1m in 1991-92 mainly as a result of an up-front distribution payment by Searle. In the following year there was a pre-tax deficit of £4.4m and Dr Horrobin expected

losses of £6m to £8m a year over the next two or three years - a period of heavy R&D spending.

The three most advanced projects are: EF4 to treat the nerve damage resulting from diabetes; EF13 to treat cancer; and EF27 to reduce the side-effects of radiotherapy. If clinical trials go well, they should be launched in 1996 or 1997.

Scotia is an unusual pharmaceutical company. It concentrates on a field - essential fatty acids derived from natural products - that has been virtually ignored by the rest of the industry. And, instead of centralised R&D and manufacturing facilities, it has small units scattered around the UK, from Surrey to the Outer Hebrides, and a basic research centre in Nova Scotia, Canada.

## Vardon £0.5m in the black

VARDON, the leisure company which owns Sea Life Centres and The London Dungeon and came to the market in October 1992, made pre-tax profits of £540,000 in the six months to June 30, against restated losses of £282,000.

The interim dividend is raised from 0.25p to 0.3p.

Turnover at the visitor attractions division grew to £5.44m (£3.15m), giving operating profits of £539,000 (£302,000). Three new attractions were added during the period - the Seal Sanctuary in Cornwall was bought in February and Sea Life Centres in Southend, Essex, and Scheveningen, the Netherlands, were opened in May. The London Dungeon was refurbished and now includes the Jack the Ripper Experience. Capital expenditure totalled £3.9m in the period.

The group's 10 bingo clubs, acquired in May, traded for seven weeks within the group and contributed turnover of £1.02m and operating profits of £298,000.

Group turnover was £26.45m (£23.75m). Earnings worked through at 0.7p (losses 0.9p).

## Royal sells US reinsurance arm for \$59m

By Richard Lapper

Royal Insurance, the composite insurer, yesterday announced the sale of its US reinsurance arm, American Royal, to the Australian group, QBE Insurance Group, for \$59m (£39m).

The sale represents "a significant diminution of our reinsurance exposure which has been identified as non-core business longer term," said Mr Richard Gamble, chief executive. Royal took the decision to withdraw from reinsurance earlier this year.

At the end of 1992 American Royal had net written premiums of \$41m and statutory net assets of \$54m. Royal bought the group for \$15m in 1983, when it was seeking to diversify the base of its reinsurance business outside Europe. The group made profits until 1992, when it sustained losses as a result of heavy losses from hurricane Andrew.

## Cakebread Robey achieves £106,000

Cakebread Robey & Co returned to profit in the first half to June 30 with £106,000 before tax, against £267,000 in the previous first half.

Sales were £2.87m against £1.14m.

Cost controls helped produce operating profits of £158,000 (£58,000 loss).

Earnings per share came through at 1.8p compared with losses of 11.1p.

The directors decided that it was not yet time to reinstate dividend payments.

## Exceptionals lift Singer & Friedlander

By Andrew Bolger

PRE-TAX profits at Singer & Friedlander, the merchant bank and property group, rose from £3.3m to £11.7m in the six months to June 30, but were considerably affected by exceptional gains.

The latest figure benefited from an exceptional gain of £2.6m on the sale of an investment, while last's figure was depressed by an exceptional write-down of £5.3m in the value of investment properties.

Profits from merchant banking and investment management rose by 19 per cent to £5.7m. The group said all divisions of its core business had improved significantly.

Property profits increased by 31 per cent to £1.9m because of lower interest rates and increased rents.

An internal valuation of the portfolio showed no significant change since December.

Interest and investment income fell from £3.1m to £1.47m as a result of spending £45m on loan stock redemption and a share buy-in.

The interim dividend rose to 1.25p (1p).

## Sema shows 38% improvement to £10.6m

By Paul Taylor

SEMA GROUP, the Anglo-French computing services company, yesterday reported a 38 per cent increase in interim pre-tax profits excluding profits on disposals.

Pre-tax profits before the profit on disposals increased from £7.73 to £10.6m in the six months to June 30 on turnover which grew by 19 per cent to £32.9m (£19.54m).

However, profits were further boosted by a £4.63m profit on disposals in the latest

period and £20.8m profits on the disposal of discontinued operations in the year-end period.

As a result pre-tax profits under the new FRS3 accounting rules fell to £15.2m (£11.62m) and earnings per share dropped from 23.27p to 10.26p.

Operating profits from continuing operations increased by 21.5 per cent to £9.73m (£8m).

The company said that the strategy of focusing on systems integration and facilities man-

agement while maintaining a leadership position in key market sectors such as banking, energy, defence "has proved to be correct."

In addition, the group had entered the second half with a strong order book and looked forward to achieving continued progress in its core businesses.

During the first half Sema spent £5.6m (£6.3m) on research and development and its book-to-bill ratio improved to 1.14 compared with 1.06 a year earlier.

The advance in turnover was

led by the group's UK operations which lifted sales by 21.4 per cent to £103.9m.

The group's German, Spanish and Benelux operations all showed declines in turnover at constant exchange rates.

The balance sheet was strengthened during the period and the group ended June with net cash of £17.8m (£12.3m).

The group recorded net interest receipts of £247,000 compared with net interest payments of £273,000 in the 1992 period.

## Proposed ruling will hit Rothmans

By Philip Coggan, Personal Finance Editor

THE restructured Rothmans tobacco group will be excluded from the FT-SE 100 index if a proposed rule change goes ahead, and nearly half Smith-Kline Beecham's market capitalisation may also be omitted.

The proposed rule change, announced yesterday by the FT-SE Actuaries UK Indices Committee, means that only companies which pay a mandatory UK franked dividend will be eligible for inclusion in the indices.

The committee proposed the change in response to the problem set by the restructuring of Rothmans International and Dunhill Holdings. Rothmans is a current constituent of the Foodie; Dunhill is a subsidiary of Rothmans and is accordingly excluded from the indices.

Four new companies will be formed: Rothmans plc and Rothmans International NV; Vendome plc and Vendome SA. Although the two pairs will be linked in the form of inseparable units, shareholders will be able to elect whether to receive the dividend from either the PLC or the NV company. If they choose the latter, the dividend will not be franked (ie, will be paid gross).

It is a principle of the indices that only UK companies are included, but at Rothmans/Vendome, the ability of shareholders to elect for dividends makes it impossible to give a precise definition of the proportion of the company which counts as UK-based.

The committee, which consists of market participants and is chaired by Mr Peter Jones of fund managers M&G, has proposed a rule which says that companies where shareholders may choose between a franked or an unfranked dividend would not be eligible.

This rule would exclude Rothmans/Vendome from the indices. It would also cause a problem for Smith-Kline Beecham units which have been included in the indices for several years, and make up nearly half the capitalisation of the company. The rules, as drafted, would exclude the units, which comprise about 1 per cent of the FT-SE 100 index. Discussions are taking place with the company and its advisers.

Mr Mark Makepeace, head of indices at the Stock Exchange said: "The problem is that it is very difficult to look through

the structure of Rothmans/Vendome and say how much of it is a UK company. The index is designed to serve investors who are seeking to gain exposure to UK companies, and not those from overseas."

Mr Ken Costa, of Warburg Securities, joint brokers to Rothmans/Vendome, said: "We're trying to understand the basis for the decision before making any further comment."

The rule needs to be approved by the FT-SE Actuaries share indices steering committee which meets on October 6.

The composition of the indices is very important to investment managers who aim either to track them, or outperform them.

See Lex

## Changes to FT-SE Actuaries Share Indices

The following notice was issued yesterday by the FT-SE Actuaries UK Indices Committee.

The Committee today approved the quarterly changes to the UK Series of the FT-SE Actuaries Share Indices, to be made on Monday, September 20 1993.

FT-SE 100

For inclusion: MEPC, Rolls-Royce, Schroders.

For exclusion: De La Rue, Tate & Lyle, Scottish Hydro-Electric.

FT-SE Mid 250 and FT-SE Actuaries 350

For inclusion: LWT (Holdings),

Northern Ireland Electricity, Devro International, Bardon, Hewdon Stuart, Leasing (John). For exclusion: MacAllan, Glenlivet, Wagon Industrial Holdings, Paterson Zochonis, FR Group, American Trust, Tully Douglas.

Companies promoted from the FT-SE Mid 250 to the FT-SE 100 will be replaced in the FT-SE Mid 250 by those companies excluded from the FT-SE 100. Companies excluded from the FT-SE Mid 250/FT-SE Actuaries 350 will be included in the FT-SE SmallCap.

The Committee also

approved the inclusion of the following new issues in the FT-SE SmallCap with effect from September 20 1993: David Brown Group, David Lloyd Leisure, F&C US Smaller Companies, Holiday Chemical Holdings, Quality Software Products Holdings, RPC Group, Stagecoach Holdings, Westminster Healthcare, Yorkshire Food Group.

The next quarterly review will be held on Wednesday December 8 1993.

Annual Review

The Committee also approved constituent changes to be

made to the FT-SE SmallCap and FTA All-Share after close of business on December 31 1993. In accordance with ground rule 4.3(c), the minimum size of constituent for FT-SE SmallCap companies has been set at £30m.

There will be an additional 74 new companies included in the FT-SE SmallCap Index, with 40 existing companies being removed.

A list of these additions and deletions will be published in tomorrow's FT.

## Jupiter Tyndall rises to £3.6m

Jupiter Tyndall Group, the banking and investment management group, raised pre-tax profits by 14 per cent to £3.6m in the first half of 1993.

The current year's figure included £483,000 from the sale of Jupiter's interest in Tyndall Australia, but with a number of non-recurring items also in the comparable figures, Mr John Duifield, chairman, said the increase was regarded as a "fair reflection" of the group's underlying performance.

Earnings per share were 8.2p (7p), while an interim cash dividend of 4p (3p) has been declared or an enhanced scrip dividend to the value of 6p per share.

James Capel will be underwriting the scrip dividend, the directors stated, at a discount of 2.5 per cent, free of expenses to a selling shareholder.

## DIVIDENDS ANNOUNCED

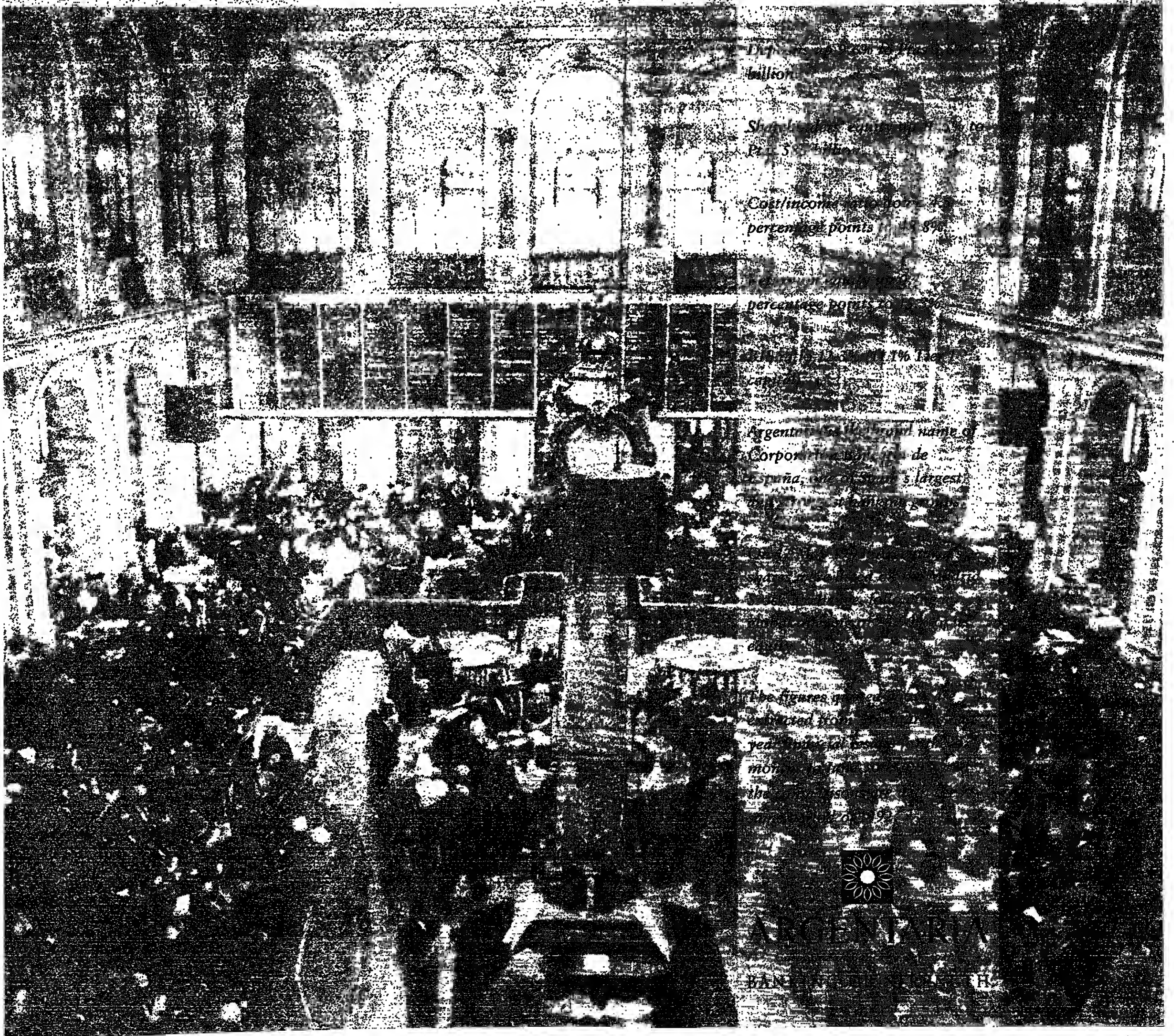
Herring Glass	int	1.25	Dec 1	1.2		0.6
Herring Overseas	fin	2.7	Oct 26	2.5	4.2	5.7
Hessway	int	1		1		1
Hill	int	65	Nov 18	3		4
Holloway Small	int	nil	Oct 29	2		7.5
Indian Industrial	fin	16	Jan 16	15	25	23
Intercontinental	int	2.06	Nov 2	1.96		6.12
Johnson & Peacock	int	4.71	Nov 1	4.71		14.33
JGC Int	int	1.75	Nov 4			
Kalamazoo	int	0.75	Nov 4	1.5		3.75
K&O	int	13.5	Nov 13	13.5		30.5
Kortale	int	5.23	Dec 31	5		14.5
Kortale	int	1.4	Oct 22	1.2		3.8
Leeds Industrial Corp	int	1.4	Nov 25	4.1		11.9
Leeds	int	1.2	Nov 1	1.1		2.6
Linger & Fried	int	1.25	Nov 1	1		2.6
Ling	int	5	Oct 29	3.56		8
Lordon	int	0.25	Nov 12	0.25		0.75
Miniply (George)	int	2	Oct 29	2		5



Operating Income up 23.7%  
to Ptas 67 billion.

Pre-tax profit up 14.7% to  
Ptas 57.6 billion.

Total assets up 7.8% to Ptas  
10,193 billion.



Dividend up 20% to Ptas 1,000  
billion.

Shareholders' equity up 14.7% to  
Ptas 5,000 billion.

Cost of funds down 1.8% to  
percentage points.

Return on assets up 20% to  
percentage points.

Return on equity up 1% to  
percentage points.

Argentine is the main name of  
Corporación Bancomer de  
España, one of Spain's largest  
financial institutions.

The figures were  
extracted from the  
year-end financial statements  
submitted to the public.

The bank's assets  
were valued at Ptas 10,193  
billion at the end of 1992.

The bank's equity  
was valued at Ptas 5,000  
billion at the end of 1992.

The bank's operating  
income was Ptas 67 billion  
at the end of 1992.

The bank's pre-tax  
profit was Ptas 57.6 billion  
at the end of 1992.

The bank's total  
assets were Ptas 10,193  
billion at the end of 1992.

The bank's share-  
holders' equity was Ptas  
5,000 billion at the end of 1992.



BANCOMER



## COMPANY NEWS: UK

## Wimpey in black with £1.1m

By Paul Taylor

GEORGE WIMPEY, Britain's second largest housebuilder, moved back into profit in the first half and said that a significant upturn in UK housing sales earlier this year would be reflected in second half profits.

Pre-tax profits were £1.1m against losses of £24.6m, restated for FR 3, after a £11.2m loss on disposals. Earnings per share were 0.17p (losses of 8.48p) and the interim dividend is being maintained at its reduced rate of 3p per share - it was halved at the interim stage last year.

Operating profits were £7.3m, against losses of £1.1m, on turnover down from £730.7m to £700.2m.

The results were accompanied by cautiously optimistic comments from Mr Joe Dwyer, chief executive, who said: "We now have evidence of a change in the underlying trading environment for our business. The barometer is moving gradually towards a more favourable climate."

"Our housing sales are running well ahead of last year and these will come through to profit in the second half." However, he also warned that "the overhang of recession will take a long time to clear".

Worldwide house completions fell slightly to 3.251 (3.343) during the first half



Joe Dwyer, left, with Sir John Quinton, chairman; barometer is moving gradually towards a more favourable climate

reflecting the slow start to the year. However, the spring upturn in the UK housing market expanded rapidly and meant that by the end of June total UK house sales, including housing association homes, were 59 per cent higher at 4.961 (3.125). Housebuilding contributed £2.4m (£2.6m) to total trading

division reported reduced trading losses of £300,000 (£1.9m).

Trading in the group's principal UK and North American aggregates markets remained tough but trading profits for the minerals side were £4.5m (£900,000) helped by a one-off £8.7m profit in the waste management business.

Net interest costs fell to £4.5m (£12.2m) reflecting reduced year-on-year borrowings and lower interest rates. Net borrowings at the end of June were £168m, representing gearing of 36 per cent.

## COMMENT

Wimpey's £104m rights issue in June has provided the funds to bolster the balance sheet and to make ready for the recovery by extending the land bank and providing cash for the minerals businesses which could begin to deliver good returns a few years down the line. More immediately the core housebuilding business is on target to benefit from cheaper land and an improving mix which should begin to boost margins. With luck the group could make pre-tax profits of about £28.5m this year, rising to £60m next year. Based on yesterday's share price of 194p this year's prospective price of 20 looks lofty, but for longer term investors the shares are trading at a slight discount to the sector.

## Wm Baird 12% down in difficult trading

By Roland Rudd

WILLIAM BAIRD, the textiles and engineering group, blamed difficult trading conditions in the UK for a 12 per cent fall in pre-tax profits for the half ended June.

They declined from £10m to £8.7m on reduced sales of £230.6m, compared with £242.7m. The shares fell 3p to 283p.

Mr Donald Parr, chairman, said there had been no consistent pattern of recovery in consumer confidence. The anticipated benefits for UK manufacturers from devaluation of sterling last year have not yet had a discernible effect on business.

Operating profits fell from £11.5m to £8.7m. Baird Textiles contributed £7.02m (£8.53m) on increased turnover of £203.6m (£195.3m).

Darchem, which recently sold its engineering division to the Weir Group for about £16m, reported lower profits of £1.6m (£1.87m).

Mr Parr hoped to sell the remaining building services and engineering companies shortly. However, he said: "There is no emergency; they are still making profits. If it takes as another year to dispose of them so be it."

Borrowings of £25m are expected to be eliminated by the year end. Lower interest rates led to a fall in net interest charges to £979,000 (£1.5m).

Earnings per share fell to 5.2p (6p). The interim dividend is maintained at 3.55p.

## COMMENT

The UK recovery may be taking longer than anticipated but the fall in textile margins disappointed the market. Regardless of how slow the upturn proves to be, the benefits from last year's devaluation of sterling are likely to flow through before the end of the second half. That should help the group to increase annual pre-tax profits to some £27m. But it may not be enough to make investors happy. A good acquisition might do the trick. That probably depends on how quick Baird can dispose of Darchem. If pre-tax profits are anything to go by it is likely to take longer than expected. The stock will look more attractive next year, but for now the shares on a prospective multiple of 17.5 - are high enough.

## Streamlining and cost cuts bolster Blenheim

By Andrew Bolger

ALTHOUGH Blenheim Group's share price dived sharply yesterday the directors said improved overhead and direct cost control, as well as continued streamlining of the exhibition group's portfolio of events, had contributed to a rise in interim operating margins from 22 per cent to 24 per cent.

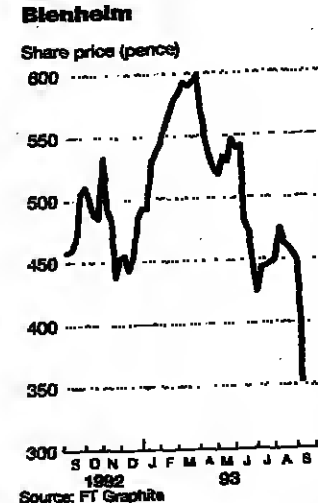
The shares closed 43p down at 355p.

Turnover rose by 10.7 per cent to £80.4m and pre-tax profits were 17.6 per cent ahead at £15.4m in the six months to June 30.

Earnings per share increased by 15 per cent to 11.2p (9.7p) and the interim dividend is lifted 13 per cent to 3.4p, compared with a pro-forma 3p.

At constant exchange rates, pre-tax profits and earnings increased by 6 per cent.

The group confirmed it still intended to pay dividends for the year of not less than 10.25p, representing an annualised increase of about 14 per cent over the annualised dividend



for the 16 months to December. Average visitor attendance at the group's trade exhibitions improved marginally. There was a net cash inflow from operations of £26.5m.

Blenheim said that as of August 23, 97 per cent of projected exhibition space re-

venues for the financial year to December had either been realised or contracted.

COMMENT It was not the respectable half-year results which did the damage, but the downgrading of future profit forecasts. The market is never kind to former go-go companies which puncture high hopes, and there is nothing analogous like less than a change in tone of this kind - particularly so soon after a big cash-raising operation. Most concern centres on the outlook for France and Germany next year, when any currency effect is likely to be adverse. There is also a fear that the unexpectedly large spending on new launches may mask more fundamental problems. There has been growing scepticism about Blenheim's recession-beating performance, and this debacle has certainly handed the initiative to bears on the stock. The group's credibility is likely to remain fragile - and would certainly not survive any more nasty surprises.

## Arjo plans flotation in London and Stockholm

By David Blackwell

ARJO, the international healthcare group based in Sweden, is planning to come to the market this autumn in London and Stockholm with a share offering worth up to SKr1.75bn (£145m).

Up to 70 per cent of the shares will be offered in London to international institutions, up to 20 per cent to retail investors in Sweden and the rest to US and other continental European investors.

Arjo, which claims to be a world leader in hygiene and lifting systems for elderly and disabled patients, was the subject of a leveraged buy-out in December 1990 from Malmros International, a Swedish conglomerate.

Arjo aims to eliminate its borrowings - now SKr1.3bn - through the flotation.

Last year Arjo reported a pre-tax loss of SKr4.6m on sales of SKr209.1m. Operating profits of SKr124.7m were overshadowed by financial charges of SKr129.3m.

At present Arjo's two largest shareholders are CWB Capital Partners and Warburg Pincus Investors, who will each hold about 38 per cent of the share capital before the offer. Arjo said that CWB Capital Partners would be selling a small proportion of its shares, leaving it with a holding of 10 to 15 per cent.

Warburg Pincus intended to increase its holding by subscribing for new shares with funds from the redemption of Arjo debt securities. Arjo said Warburg Pincus would have between 20 and 25 per cent of the shares after the offering. Existing shareholders will sell no more than SKr250m of

shares, Arjo said. Mr Hans Lindström, chief executive, said yesterday that Arjo made 97 per cent of its sales outside Sweden, with markets in 40 different countries. The main customers were hospitals, nursing homes and home care organisations.

Last year Germany accounted for 26.8 per cent of group sales, with the US on 18.6 per cent and the UK on 15.7 per cent. Half the manufacturing is based in Sweden, 25 per cent in the UK and 15 per cent in the US. SG Warburg Securities will sponsor the listing in London, while Carnegie Fondkommission is to sponsor the Stockholm listing. SG Warburg Securities will also act as global co-ordinator for the offering, with James Capel and Carnegie Fondkommission as co-lead managers.

## Gas boost for Cairn Energy

THE CONTINUING recovery in the US gas price, together with the strength of the dollar against sterling, helped Cairn Energy establish its recovery in the first half of 1993.

The independent oil and gas company reported pre-tax profit of \$641,000, against a \$161,000 loss previously, and profits of \$818,000 for 1992.

Teredo Petroleum, acquired in May, contributed to the profit and also to the increased sales figure of \$8.2m, against \$5.7m.

Cairn said the main cause of the sales advance was the US gas price in the period which, for the group's share of production, averaged \$2.09 per thousand standard cu ft, compared with an average of \$1.59 previously.

Earnings per share came through at 1.21p (losses 0.66p). Teredo properties, which are mainly onshore UK and Spain, had produced good cash flow and a strong contribution from this source was expected in the second half. In addition cost savings were expected to be achieved by the closure of

Teredo's London office. Gearing had been reduced significantly by the \$5.2m placing and open offer in May and the issue and sale of shares in CEUSA, the US subsidiary, in July.

The company said that in the half year exploration costs previously incurred on North Sea licences had been carried at \$5.5m.

Changes in the Petroleum Revenue Tax regime and the reduced exploration drilling in the North Sea might effect the carrying value of these licences.

## Ex-Lands makes £6.6m property buy

Ex-Lands, the property management group, has acquired Centre Heights, Finchley Road, London, for £6.6m, of which £4.4m is cash and £2.2m by the allotment of ordinary 10p shares. The property has retail, office and residential accommodation.

## Burnfield shares fall 29p despite profits rise

PROFITS of Burnfield, the West Midlands-based specialist engineer, improved from £1.1m to £1.27m pre-tax for the six months ended July 2.

The market, however, was disappointed with the results and marked the group's share price down by 29p to 124p.

Mr Brian McGowan, chairman, said the business climate "remained unpredictable". He pointed out that some recovery was apparent in the US, demand in the UK was variable and recessionary forces con-

tinued to affect the group's French and German markets. Sales for the half year improved from £11.4m to £18.4m, which included £1.6m from acquisitions. Earnings per share dipped to 2.2p (3.9p) but the interim dividend is being maintained at 1.65p.

The results included a one-off £300,000 provision to restructure Isopad's operation in France and thus eliminate losses. The Isopad offshoot is a maker of heating products.

At period end group net borrowings were £2.5m compared with net cash balances of £3.1m at end-December 1992. The movement primarily reflected the acquisition of Desgranges et Huet in March for £5.2m, including assumed borrowings.

Mr McGowan said the overall outlook for Burnfield was encouraging. He said the balance sheet remained strong which enabled the group to "focus on growth, both organic and by appropriate acquisitions".

## NEWS DIGEST

## Interest depresses Stat-Plus

A DROP IN interest income led to a fall in pre-tax profits from £2.02m to £1.52m at Stat-Plus group in the first half of 1993.

The group sells legal stationery, printing and law forms publishing.

Sales in the half year were broadly unchanged at £6.03m while operating profit rose 7 per cent to £1.39m. Gross margins were maintained and overheads reduced, leading to a considerable improvement overall to the final six months of 1992.

The outlook for the remainder of the year would depend to a considerable degree on the speed of the recovery in the housing market. Cash deposits stood at £13.8m.

Earnings per share came to 5.7p (6.3p) but the interim dividend is stepped up to 4p (3.56p).

that it had run into a £27,000 loss in the first half of 1993 and was halving the dividend to 0.75p.

The group makes products for telecommunications and switching, and electronic and mechanical systems.

A satisfactory profit was expected for the second half, to put the group in a strong position to enter 1994.

Sales suffered a 19 per cent fall to £5.96m (£7.32m). That was blamed on completion of the contract for Littlewoods Pools, the decline in microfilm reader business, and the sluggish pace of business recovery in the first quarter.

The impact on operating profit was a decline of 55 per cent. There was a restructuring provision of £313,000.

Losses per share were 3.9p (earnings 4.3p).

## IBC expects return to dividends

International Business Communications (Holdings), the publishing and conferences company, achieved an improvement in profits from £272,000 to £1.37m pre-tax for the six months to end-June.

The directors expect to restore dividends via a final of not less than 2p. The shares rose 10p to 145p.

Turnover pushed ahead from £27.46m to £29.06m and at the operating level, profits increased by 10 per cent to £3.62m. That compares with a forecast in a recent circular of £3.5m.

Interest charges were reduced to £1.09m (£1.28m) and earnings per share emerged at 0.71p (0.24p).

## OGC sale lifts Fairhaven to \$37m

The sale of 40 per cent of OGC International enabled Fairhaven International, the Bermuda-based specialist oil contractor, to achieve a jump in pre-tax profits from \$9.27m to \$37.4m (£24.7m) in the half year to June 30.

Turnover fell from \$246m to \$207m and operating profits were lower at \$7.25m (\$8.27m). The net gain on the OGC sale amounted to \$30.2m.

Earnings per share worked through at 13.9 cents (2.5 cents) and the interim dividend is lifted to 0.5 cents (0.2 cents).

OGC International, which was floated in May, also announced its results yesterday with a rise in pre-tax profits from \$4.77m to \$5.3m for the first half of 1993. That was achieved despite a fall in turnover of continuing operations to \$97.1m (£110m).

Earnings improved to 5.89p (4.97p) per share and a dividend of 1.75p is declared.

## IDV sets up Chinese venture

In a further expansion move into the Asia Pacific region, International Distillers & Vintners, the drinks sector of Grand Metropolitan, has set up a new company to market and distribute IDV brands in China.

IDV has appointed Mr TY Wong as managing director of the new company, International Distillers China, who will have his head office in Hong Kong, with three new representative offices in Beijing, Shanghai and Guangzhou.

Mr John McGrath, a Grand Met director and IDV's chief executive, said that with a population of 1.2bn, China had a total spirits market of about 50m cases a year, of which international spirit brands account for 700,000 cases. This sector increased by 40 per cent last year which, he said, demonstrated enormous potential for future growth.

Last year IDV set up its own and joint venture distribution companies covering Hong Kong, Singapore, Malaysia, Indonesia, Thailand and South Korea.

## US goodwill write-off hits Amec

By Catherine Milton

INTERIM pre-tax profits at Amec, the UK construction, engineering and property company, slipped from £10.6m to £9.1m despite a modest increase at the operating level.

Operating profits were ahead at £13.2m (£10.3m) but Amec's pre-tax profits were reduced by the write-off of £2.2m of goodwill on US businesses sold and the group paid £1.9m interest received last year.

The board cut the interim dividend to 1.5p (2p) to reflect more closely the group's split on earnings between interim and final results. It expects at least to maintain last year's 3p total at the year end, "unless conditions deteriorate

significantly."

Turnover rose to £1.12bn (£1.04bn). Sir Alan Cockshaw, chairman, said: "Turnover was slightly higher than last year but there were very, very significant variations in the type of work carried out and its geographical location." The company's order book was down 7 per cent overall at the halfway stage.

Orders had grown, however, in oil, gas and petrochemical activities, matched by progress in heavy electrical and mechanical engineering.

Sir Alan added: "Steady growth in construction in mainland Europe, particularly in Germany and in South East Asia has partially offset significant reductions in our UK building and business services work."

Gearing at June 30 was 15 per cent (2 per cent).

Contracting, "substantially" financed by subcontractors and materials suppliers, improved turnover to £346.3m (£330.9m) giving profits virtually flat at £5.5m.

Mechanical and electrical engineering, including process and engineering, showed increased activity at £741.9m (£680.4m) giving profits of £10.9m (£9.8m) but the business has an in-built lag between labour costs and payments.

The housing and property business improved sales to £41.1m (£40.5m), but losses deepened to £3.2m (£2.1m).

## COMMENT

Amec has tackled the difficult business cycle in contracting by diversifying its work in

terms of both types of project and geography and it believes its problems in some overseas operations are behind it. Its work load is skewed more now towards the resilient process and energy sectors and away from lacklustre contracting.

The former has been a cash drain but this should turn around in the second half. Amec expects to be unpaired at the year end as payments come in. Meanwhile falling orders indicate the company's restraint in bidding for unprofitable work. Full year pre-tax profits are forecast at £25m giving fully diluted earnings of 7.8p and a prospective multiple of 12. This looks cheap compared with other companies in the sector but they have bigger exposure than Amec to the housing recovery.

# AMEC

## Interim results

- \* Solid progress in UK engineering and construction underpins overall performance recovery
- \* Good growth in process and energy activities
- \* Changing balance improves quality of future workload
- \* Interim ordinary dividend of 1.5p

	SIX MONTHS ENDED 30.6.93 £ MILLION	SIX MONTHS ENDED 30.6.92 £ MILLION	YEAR ENDED 31.12.92 £ MILLION
TURNOVER	1,119.3	1,044.0	2,121.7
PROFIT (LOSS) BEFORE INTEREST AND GOODWILL WRITE OFF	13.2	10.3	(90.3)
PROFIT (LOSS) BEFORE TAX	9.1	10.6	(87.5)
PROFIT (LOSS) AFTER TAX	8.8	7.1	(77.7)
EARNINGS PER ORDINARY SHARE BEFORE EXCEPTIONAL ITEMS AND GOODWILL WRITE OFF (UNADJUSTED)	2.8p	1.7p	3.7p
DILUTED	3.9p	3.3p	6.8p
EARNINGS (LOSS) PER ORDINARY SHARE AFTER EXCEPTIONAL ITEMS AND GOODWILL WRITE OFF (UNADJUSTED)	1.4p	0.7p	(44.1p)
DILUTED	3.1p	2.7p	(25.2p)
DIVIDENDS PER ORDINARY SHARE	1.5p	2.0p	3.0p

The interim dividend of 1.5p per share will be paid on 31 December 1993 to ordinary shareholders on the register on 1 November 1993.



AMEC BUILDING - AMEC CIVIL ENGINEERING - AMEC CONSTRUCTION - AMEC CONSTRUCTION PTY - AMEC CONSTRUCTION BOOTLAND - AMEC SERVICES - AMEC CONSTRUCTION SOUTH EAST ASIA  
AMEC DESIGN AND MANAGEMENT - AMEC DEVELOPMENT - AMEC ELECTRICAL AND MECHANICAL ENGINEERING - AMEC ENGINEERING - AMEC ENGINEERING RELINE - AMEC ENGINEERING RESEARCH - AMEC ENGINEERING RESEARCH  
AMEC INTERNATIONAL CONSTRUCTION - AMEC INTERIOR - AMEC OFFSHORE - AMEC OFFSHORE DEVELOPMENT - AMEC POWER - AMEC PROCESS AND ENERGY - AMEC PROCESS AND ENERGY CONSTRUCTION  
AMEC PROCESS AND ENERGY INTERNATIONAL - AMEC RAILWAYS - AMEC UTILITIES - C. V. RICHARD - THE CORNISH HEAT AND POWER COMPANY - DAVCO - PARLOUTON HOUSE - FIRE ELECTRIC COMPANY  
FRANKLIN MOORE INDUSTRIES - GERRARD - HETTLER - MATTHEW HALL - MAPLE - MORRIS DIESEL INTERNATIONAL - PERMA CONSTRUCTION - JAMES SCOTT - WATSON STEEL

AMEC PLC - SANDWICH HOUSE - HARTFORD - NORTHWICH - CHESHIRE CW2 2YA - TELEPHONE (0609) 22228



## COMPANY NEWS: UK

Particularly bad conditions in continental Europe

**'Patchy' markets leave Ocean static at £20.8m**

By David Blackwell

OCEAN GROUP, the freight, environmental and marine services combine which underwent an £8m streamlining of its management structure last year, has announced unchanged pre-tax profits of £20.8m for the first half of 1993.

That followed a 20 per cent increase in turnover to £789.1m (£653.4m).

Earnings per share and the interim dividend were also unchanged at 9.4p and 4.71p respectively.

Mr Nicholas Barber, chief executive, said the results were consistent with the group's plans. He described its markets as "patchy," with particularly bad conditions in continental Europe. The group was not expecting any help from the world economy this year.

Operating profits rose to £24.4m (£23.6m) and included £700,000 from Panocan, whose overseas activities were sold to Royal Pakhoed in March for £55m including debt. Panocan also contributed £5.4m to turnover.

Net interest payments were £3.6m (£2.8m), reflecting a

£12m increase in net debt to £63m and the reduction in UK interest returns from the group's £33m worth of sterling deposits. However, gearing was down from 35 per cent at December 31 to just over 20 per cent following the Panocan disposal.

Pre-tax profit included a £2m benefit from exchange gains, countered by increased costs on the computer system being installed at MSAS, the international freight business.

Freight and distribution services, which operate on very fine margins, boosted turnover by just over 25 per cent to £71m for the half, although its operating profit eased from £8m to £7.8m. The group expected to see the benefits from its new computer system next year.

Marine services contributed the bulk of the profits, with £14.8m (£12.6m) from a turnover up 9 per cent at £83.8m. Mr Barber said the group had moved its oil exploration vessels away from the depressed North Sea to areas of strength in West Africa and south-east Asia.

Cory Towage had a good first half and benefited from favour-

able trading in a number of its markets and from salvage revenue. Results at OIL showed an improvement over last year.

Operating profit from the environmental services division was £1.8m (£1.6m) on turnover of £35.2m (£32.8m).

## ● COMMENT

Rarely can a flatter first half have been announced. The company says it is satisfied with its progress since last year's reorganisation, which shed nearly 500 jobs and is expected to reap a full benefit of £5m by the year end after £1.5m in the first half. These savings are likely to account for the rise in pre-tax profits to about £44m, from £38.1m last year. But the picture is not so rosy if currency gains of £4m to £5m are added into the equation. However, the outlook brightens next year, when the benefits of the freight distribution business's new computer system should start to feed through and the £18m Barcelona distribution centre announced in July comes on stream. Meanwhile the shares are worth holding for their 5% per cent yield.

**First Henderson trust since TR merger**

By Philip Coggan, Personal Finance Editor

HENDERSON Touche Renmant is launching its first investment trust since the merger of the two fund management groups late last year.

The new trust, which will invest in Japanese smaller companies, is aiming to raise between £30m and £100m via a placing and offer for subscription of shares at 100p, with warrants attached on a 1-for-5 basis.

Henderson TR believes that low interest rates and increased government spending will help the Japanese economy to grow appreciably in 1994 and 1995. Low rates will also push investors away from cash and into the stock markets where, although p/e ratios are very high, Henderson TR thinks stocks look attractive on a price-to-cash flow basis.

The annual management charge will be 1 per cent of assets, and issue expenses will be capped at 4 per cent. The trust will have an initial life of 10 years. Closing day for applications will be October 14 and dealings are expected to start on October 22.

**Nurdin & Peacock ahead at £7m**

By Catherine Milton

NURDIN & Peacock, the cash and carry operator, said yesterday the second of its US-style cut price warehouses would open as planned next summer in spite of "petulant" attempts to "stifle" the project by a national retailer.

The company faces a judicial review of planning permission, sparked by Sainsbury, which could push up costs at its second site, which is in the West Midlands.

Mr Nigel Hall, finance director, said: "We think this is a petulant attempt to stifle a project which is clearly in the consumer interest."

Announcing half-year underlying pre-tax profits up 4 per cent on sales down by

a similar amount and volumes off 9 per cent, Mr Dickie Fulford, chairman, said the first warehouse was on schedule: "The Cargo Club warehouse at Croydon is under construction and will open in March 1994."

Pre-tax profits rose from \$5.58m to \$7.07m in the six months to July 2, flattened by one-off costs of \$1.3m in the comparative figure. Turnover fell to \$877.9m (\$704.1m). Better control of costs and stock levels helped operating profit margins rise to 0.9 per cent (0.7 per cent).

Mr Fulford said: "The results reflect the continuing severity of the economic environment and the competition for the business of independent grocers and caterers. This has been offset by further improvements in operating efficiency."

The Glasgow trade and business centre, launched in 1992, continued to perform up to expectations. The company is extending its buying procedures and selecting merchandise ahead of the opening of the Croydon development.

The company believed it had gained market share "from all the other operators" in its core and carry business of 46 outlets mainly in the south-east. It also believed that the independent grocery sector had declined by about 10 per cent over the last 12 months as consumer spending switched to supermarkets and some rivals were forced out of business.

It received £555,000 (£1.03m) in interest as rates fell. Earnings per share rose to 3.86p (3.08p) and the interim dividend is being increased to 2.06p (1.96p).

**Equipment failure hits Cluff**

By Kenneth Gooding, Mining Correspondent

FAILURE of equipment, which interrupted production at Freda Rebecca, Zimbabwe's biggest gold mine, for seven weeks contributed to a 28 per cent drop in midway pre-tax profits reported by Cluff Resources, the UK-based gold company.

Very high interest rates in Zimbabwe also affected the result and pre-tax profits dropped from \$915,000 to \$661,000 for the period to June 30.

Turnover fell from \$5.97m to \$5.67m and gold output was

down from 35,825 troy ounces in the first half of 1992, when production was held back by power cuts associated with Zimbabwe's drought, to 28,165 ounces.

Mr Algy Cluff, chairman, said both mills at Freda Rebecca were back in full production following repairs to a motor which drives one of them and that the company's gold output this year was expected to reach 65,000 ounces against a previous target of 70,000.

Cluff's interest payments would ease considerably once it completed a large gold loan being negotiated in Zimbabwe

- the first ever permitted by that country's central bank. The loan should be completed later this month.

Some of the proceeds, about US\$12m (£7.5m) would fund underground development at Freda Rebecca, taking annual capacity to nearly 100,000 ounces during 1995.

Aberfoyle, the Zimbabwean industrial and farming group in which Cluff recently acquired a 70 per cent stake, would make a positive contribution to results, said Mr Cluff.

Cluff's net earnings in the half year were £278,000 (£238,000), equal to 38p (33p) per share.

**Porvair up by 12% to £0.85m**

Pre-tax profits at Porvair, the maker of microporous synthetic materials, advanced 12 per cent to £849,000 in the six months to May 31.

The rise was due to organic growth at its original companies.

The directors pointed out that acquisitions impacted more on turnover which rose 31 per cent to £10.3m (£7.86m). Earnings per share came out at 4.5p (4p) and the interim dividend is being raised to 1.4p (1.2p).

Mr John Morgan, chairman, said he expected the year as a whole to be one of further progress.

**Acquisitions help lift Eadie to £850,000**

ON TURNOVER up by 47 per cent from £9.22m to £13.6m, Eadie Holdings, the general engineering group, pushed pre-tax profits ahead to £850,000 for the first half of 1993, compared with £85,000 last time.

Mr Peter Bromwich, chairman, said profits were in line with expectations, with good contributions from all areas of the business.

He explained that half the turnover boost came from acquisitions, with the rest from organic growth.

After tax of £280,000 (£20,000) earnings per share were 1.09p, against 0.19p, and the company is returning to the interim dividend list with 0.5p - last year there was a single final payment of 0.5p.

Mr Bromwich stated that Eadie continued to seek opportunities "for the careful expansion of the group by further acquisitions, by the introduction of new products into existing businesses and by continuing expansion of the customer base."

**Albrighton plans £3.4m rights and acquisition**

ALBRIGHTON plans an acquisition and to raise £3.4m net through a rights issue at 17p per share. Yesterday the shares closed 1p lower at 20p.

The company is paying £2.9m cash to acquire the assets of the dimensional stone business currently carried on by RMC, comprising three operational quarries, three dormant ones, and three processing plants.

In addition, a lease agreement has been entered into

over a 5.2 acre site in Redditch with an option to purchase at £1.3m.

Currently the group has eight sandstone quarries, two granite quarries and five processing plants.

The rights comprises 21.7m shares to be offered on a 3-for-7 basis. Tarmac, which acquired 8.4m shares in Albrighton in January, is having them conditionally placed with institutions at 17p each.

It will then have no interest in the capital.

**Northern Ind'l edges ahead to £443,880**

Northern Industrial Improvement Trust, the investment and property company, reported pre-tax profits of £443,880 for the year to the end of March, against £425,996.

Income totalled £493,898 (£473,235) and earnings came out at 27.55p (24.7p) per share. A proposed final dividend of 16p makes a total for the year of 26p (23p).

**Fleming Overseas net assets ahead**

The Fleming Overseas Investment Trust reported net assets per share of 306.6p at June 30, compared with 214.7p a year earlier.

Net revenue for the year to the end of June improved to £8.37m (£5.34m) for earnings per share of 4.78p against 4p.

The proposed final dividend is 2.7p for an increased total of 4.3p (4p).

**Tullow Oil back in the black at halfway**

STRONG GROWTH in oil and gas sales helped Tullow Oil, the Irish exploration and development company, to turn in an operating profit of £2971,958 (£254,000) for the first half of 1993, against a £10,343 loss last time.

Sales grew by over 72 per cent to £938,479, but the directors explained that that included only one month's contribution from the Senegal well.

And the sales were affected by disruption to UK production

caused by testing programmes. Sales in the second half were expected to include full contributions from production in both Senegal and the UK as well as first production from the Czech licence, the directors stated.

At the attributable level, profit came out at £290,159, against £2.19m last time which included £2.19m profit on the sale of a licence interest.

Earnings per share at six months fell from 1.48p to 0.2p.

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## COMMODITIES AND AGRICULTURE

## Supply fears push cocoa prices to 3-year highs

By Deborah Hargreaves

COCOA PRICES surged to their highest level for over 3 years in London yesterday, fuelled by continued fears that the Ivory Coast's harvest will be lower than expected, leading to a shortfall in world supply.

The price spike came on the eve of the International Cocoa Organisation's talks in London on the operation of its new producers' agreement, which will try to bring supply and demand more closely into line.

The price of the December cocoa futures contract on the London Commodity Exchange rose in hectic trading by 231 to \$862 a tonne - its highest point since June 1990. About 16,000 contracts had changed hands by the close of the market, still way below the record of 46,456

lots set on June 22.

"The market has realised cocoa prices have just been too low for too long and maybe this is the beginning of a big move," said Mr Tony Chadwick at Prudential Bache.

The cocoa market has recently been reacting to reports that this year's crop from the Ivory Coast, which produces around a third of the world's cocoa, will not be as good as expected.

A poor harvest - which begins on October 1 - will push world supplies lower than demand for the third season in a row.

One reason for the shortfall is that prices have been so low in recent years, they have not encouraged producers to invest in production, resulting in the current poor crops.

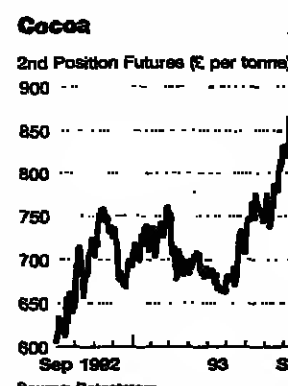
Mr Tony Harrison from Mars

who is chairman of the European cocoa industrial users body, Caobisco, says there is a pressing need for producers meeting in London today to discuss ways of matching world supply with demand.

"I'm not arguing for higher prices, but we want to see a sustained supply and these prices have not been encouraging that," he said. World demand has been rising by between 3 and 5 per cent a year.

The 40 nations represented at the talks in London will also try to agree a way to dispose of some 230,000 tonnes of huffer stocks held from the market-stabilising International Cocoa Agreement, which expired this year.

They are expected to agree a way of releasing some 4,000 tonnes of cocoa to the market



Source: Datastream

each month over four and a half years at prices prevailing in the market.

Mr Lawrence Eagles, commodities analyst at GNI, the London trade house, believes that the way in which the buffer stock liquidation is decided could have an effect on prices. But traders have been anticipating the outcome for some weeks and most of them believe the outcome of the talks has already been discounted.

## LME moves to relieve copper 'squeeze'

By Kenneth Gooding, Mining Correspondent

THE LONDON Metal Exchange last night took emergency action in response to widespread suggestions that its "flagship" copper market, on which most contracts around the world are based, was being manipulated to boost the price.

It said the daily backwardation (premium over the future price for metal for immediate delivery) was to be limited to \$5 a tonne.

After an LME board meeting, Mr David King, chief executive, strode on to the trading

floor at 3.30pm London time to announce the details.

He said later that the board had also authorised him to take any further action that might be needed to ensure an orderly copper market.

The LME board's intervention was widely expected because two formal warnings had already been given that action might be taken to end the squeeze.

In similar circumstances in the past the LME has imposed limits on daily backwardations.

"This should have come as a

surprise to no-one," said Mr Nick Moore, analyst at the Ord Minnett financial services company. "So there should be no queuing from traders. But, once again, it helps those who are short of metal to get out of a tight spot."

Many traders suggested that Sumitomo, the Japanese group, has been responsible for the supply tightness butting up this summer, possibly in preparation for a large sale of physical copper deal. Sumitomo denied it was manipulating the market.

Mr King said yesterday that the backwardation now

imposed until further notice took account of both present prices and the level of trading. Dealers said the premiums for key dates, such as next week's September delivery date and October 7 and 8, have varied but they have never been much above \$7 a tonne.

After the LME's move copper for immediate delivery closed down \$15.50 a tonne at \$1,986 and three-month copper was down \$19 at \$1,928. Analysts suggested that, with a lacklustre world economy and LME stocks at a 15-year peak, copper had further to fall when the "squeeze" ended.

## London coffee market's surge continues

By Deborah Hargreaves

ROBUSTA COFFEE futures prices rose by \$20 a tonne on the London Commodity Exchange yesterday with the November contract closing at \$1,268 a tonne, after reaching a fresh 2½-year high of \$1,285 a tonne during the day.

The sharp run-up in coffee prices over the past couple of days reflects a tightness in supplies of good quality beans to be delivered against the Septem-

ber contract.

Market sentiment was also buoyed by the decision of Indonesia to join other producers in the coffee retention scheme, which makes the agreement more of a global one.

Brazil has fought off a challenge by Colombia to its traditional position as the world's leading coffee exporter, according to figures released this week by the Brazilian Federation of Coffee Exporters

(Febec), writes Bill Hinchberger in Sao Paulo.

It had appeared that Brazil would be outperformed by its north-western neighbour for the July-June season. But a rebound in Brazilian shipments in June, pushing monthly exports back over 1m bags mark, helped the country to regain its world leadership.

Brazil shipped 15.9m bags (80kg each) compared with Colombia's 15.7m during the 12

month period ending in June. World exports were 76.5m bags. During the 1991-92 season, Brazil exported 21.9m bags, compared with Colombia's 14.8m. World exports that season totalled 76.4m bags.

The Brazilian resurgence is continuing. The country exported 1.4m bags in July, the highest monthly figure this year. August shipments should have reached 1.5m, according to preliminary estimates compiled by Febec.

## US likely to lower grain and soya estimates

By Laurie Morse in Chicago

COMMODITY TRADERS are expecting the US Department of Agriculture to reduce its estimates for the wheat, soybean, and maize harvest when it releases the results of its September crop survey this afternoon.

However, the figures are unlikely to boost grain prices, as futures fund managers, who control huge commodity investments, have already allowed for the reductions.

Although respected private crop forecasters like Memphis-based Sparks Commodities lowered their own crop estimates last Friday, soybean prices tumbled to their lowest levels since June 30 after Monday's Labour Day holiday. The slide came as weather forecasts predicted fair harvesting weather for the week, and fund managers, made nervous by losses in gold, sold off holdings of other commodities.

Tumbling oil prices and interest rates have eased infla-

tion concerns, making investments in physical commodities less attractive. Commodities are often held in portfolios as inflation hedges.

Based on its August 1 survey, the USDA estimated maize production at 7.423bn bushels and soybean production at 1.902bn bushels. Sparks lowered its estimates to 7.316bn bushels for maize and 1.869bn bushels for soybeans in advance of today's report. Another prominent consulting group broadcast harvest esti-

mates as low as 7.294bn bushels for maize and 1.848bn bushels for soybeans.

While analysts expect the government to reduce its production estimates today, they say the October crop survey, conducted later in the harvest, is likely to restore some of the lost bushels. "History dictates that October estimates are, at higher than September's, at least in non-drought years," says Mr Richard Lowery, president of the market consulting firm, AgResources.

## Russia signals further cut in oil production

By John Lloyd in Moscow

A FORECAST of Russian oil production with grim implications for both Russia and the former Soviet states was presented to the energy ministers of the states in Moscow yesterday.

The oil industry forecasting group, Asotek, told them it expected crude oil production in Russia in 1994 to be 327m tonnes - sharply down on this year's forecast figure of 340-350m tonnes. Refined products

should reach 255m tonnes in 1994 compared with 254.6m tonnes in 1993, it said.

Asotek said the decline in oil production, which has been falling steadily for five years. However, it could be "significantly slowed" through the programme of co-operation and investment agreed between nearly all the former Soviet states.

According to Tass, the official news agency, Mr Nikolai Pravednikov, head of Asotek,

told the gathering that the expected level of production next year would cover Russia's consumption but would not be sufficient to supply other former Soviet states. Russia has cut back on cheap oil supplies to its neighbours but has not moved to full world pricing of oil exports to its closest partners in the Commonwealth of Independent States.

The ray of light was that gas production was forecast to rise by 10bn to 12bn cubic metres, to 650bn-660bn cu m in 1994.

The co-operating states - Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine and Uzbekistan - have agreed to pool investment in energy resources and to create joint ventures for the proving and developing of oil supplies. However, the poverty of most of them has so far limited the co-operation - while the Russian oil managers continue to throw cold water on most projects that would bring in foreign oil companies.

AS THE sun rises over the village of Mithi, on the Pakistani border of the Thar desert, an ominous silence is broken only by the tinkling of bells tied around the necks of goats and camels coming out of a nearby valley, followed by bare-footed herdsmen in torn clothes.

"Makhar ayo" shouts one suddenly - "the locusts have come" - and all eyes turn towards a band of hundreds of pink insects flying off some nearby trees.

A few miles up the desert track, villagers wait for the bus to take them to irrigated sugarcane fields in search of seasonal jobs. They have seen a drought this year followed by the locust invasion, and fears of widespread fodder shortages are gradually convincing many to migrate, at least until the locust attack is past.

Aerial and ground sprays have left grim reminders of the potential catastrophe that awaits them. For villages around the roadside are littered with dead yellow hoppers and pink locusts in the flying stage. But the problem is far from over.

The scene is only one example of Pakistan's most recent emergency in the agriculture sector. The scale of the problem is huge, claimed by some

to be the worst locust plague in more than three decades.

The government this week called in the army to help with the monitoring of locust bands and with aerial spraying, after the department of agriculture found itself unable to meet the challenge. According to official

estimates, at least 47,000 bands of locusts have been eliminated in spraying over an area of about 12,000 sq km. But that is only a small portion of the massive task at hand. At least 50,000 sq km of desert land in Thar (Sindh) and Cholistan (Punjab), remains as a breeding ground for the voracious insects.

Shortage of equipment and pesticides has raised concerns that the defence operation will prove futile. Pakistani experts expect more swarms to arrive from India by the middle of this month, amid fears of heavy breeding currently in progress there.

The desert is the last frontier before lush prime farmland

officials share these concerns. One junior government entomologist says the equipment and pesticide shortage has caused the most serious setback. "We need at least 100 exhaust vehicles, we have only 15. How can we fight like this?"

Some pesticides have been supplied in assistance from bilateral donor agencies and the UN's Food and Agriculture Organisation. Some officials fear, however, that unless a massive operation is launched within the next couple of weeks, the locusts may cross the desert and penetrate inland. How much crop damage would result is anybody's guess.

According to government forecasts earlier this year, Pakistan expected to produce up to 12m bales of cotton from its current crop. Some officials say this must be now lowered to 11m bales, but only as a starting point for assessing the possible damage caused by the locust invasion.

Whatever the final outcome, the catastrophe for the desert herdsmen has already taken place. For some, it may be years before they can repair their livelihoods, which were at a minimum subsistence level to start with.

## Veteran diamond chief resigns 'because of ill health'

By Leyla Boulton in Moscow

MR VALERY Rudakov, the veteran chief of Russia's diamond industry, has resigned citing ill-health, and has been replaced by a senior official from Yakutia, the semi-independent region that produces the country's diamonds.

His successor, elected by shareholders including the

Yakut government, is Mr Andrei Kirilina, deputy chairman of the Yakut parliament, which has been pushing for ever greater independence from Moscow.

But Mr Sergei Ulan, deputy chairman of Almaz-Rossii Sakha the state-dominated corporation responsible for the production and marketing of Russian diamonds, denied that

there were any political motives for Mr Rudakov's departure.

However, another official, who declined to be identified, said the resignation may have been triggered by conflicts between Mr Rudakov and Yakut authorities increasingly eager to wrest remaining control of the industry from Moscow-based Russian authori-

ties.

"He is a strong-willed man and he is not the kind to give in to demands, especially stupid ones," the official said.

Before heading ARS, Mr Rudakov was in charge of Glavalmazoloto, the Soviet state gold and diamonds monopoly, which was subsequently broken up into separate corporations for diamonds and gold.

## WORLD COMMODITIES PRICES

## MARKET REPORT

Charts show mixed pictures for precious metals after yesterday's nervous base-bidding in the wake of technically-inspired selling on Tuesday, analysts said. As the London bullion market GOLD price fell another \$2.50 to \$351.75 a troy ounce traders said the downside risk was relatively limited. "The break through \$350 was important," said Ms Eil Gifford, analyst at Investment Research of Cambridge. But she thought the \$350 mark was "not particularly significant". She said the market was "oversold" and the real support doesn't begin until \$340.

Mr David Karyl, senior analyst with

## London Markets

SPOT MARKETS	
Crude oil (per barrel FOB/C)	+
Brent Blend (Oct)	\$112.42-44 +0.25
Dubai Blend (Oct)	\$112.32-34 +0.00
West Blend (Oct)	\$112.02-04 +0.00
WTI (1st Oct)	\$112.02-04 +0.00
OIL PRODUCTS	
AWP prompt delivery per tonne CIF	+
Petroleum Gasoline	\$180-182
Gas Oil	\$180-181
Heavy Fuel Oil	\$82-84
Naphtha	\$181-183
Petroleum Argut Estimates	
Other	+
Gold (per troy oz)	\$351.75 -2.5
Silver (per troy oz)	\$430.50 -0.5
Platinum (per troy oz)	\$857.25 -8.5
Palladium (per troy oz)	\$117.00 -2.75
Copper (per troy oz)	
London (per troy oz)	\$1.00 -0.5
3-month (per troy oz)	\$1.00 -0.5
6-month (per troy oz)	\$1.00 -0.5
12-month (per troy oz)	\$1.00 -0.5
15-month (per troy oz)	\$1.00 -0.5
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246-month (per troy oz)	\$1.00 -0.5
249-month (per troy oz)	\$1.00 -0.5
252-month (per troy oz)	\$1.00 -0.5
255-month (per troy oz)	\$1.00 -0.5
258-month (per troy oz)	\$1.00 -0.5
261-month (per troy oz)	\$1.00 -0.5
264-month (per troy oz)	\$1.00 -0.5
267-month (per troy oz)	\$1.00 -0.5
270-month (per troy oz)	\$1.00 -0.5
273-month (per troy oz)	\$1.00 -0.5
276-month (per troy oz)	\$1.00 -0.5
279-month (per troy oz)	\$1.00 -0.5
282-month (per troy oz)	\$1.00 -0.5
285-month (per troy oz)	\$1.00 -0.5
288-month (per troy oz)	\$1.00 -0.5
291-month (per troy oz)	\$1.00 -0.5
294-month (per troy oz)	\$1.00 -0.5
297-month (per troy oz)	\$1.00 -0.5
300-month (per troy oz)	\$1.00 -0.5
303-month (per troy oz)	\$1.00 -0.5
306-month (per troy oz)	\$1.00 -0.5
309-month (per troy oz)	\$1.00 -0.5
312-month (per troy oz)	\$1.00 -0.5
315-month (per troy oz)	\$1.00 -0.5
318-month (per troy oz)	\$1.00 -0.5
321-month (per troy oz)	\$1.00 -0.5
324-month (per troy oz)	\$1.00 -0.5
327-month (per troy oz)	\$1.00 -0.5
330-month (per troy oz)	\$1.00 -0.5
333-month (per troy oz)	\$1.00 -0.5
336-month (per troy oz)	\$1.00 -0.5
339-month (per troy oz)	\$1.00 -0.5
342-month (per troy oz)	\$1.00 -0.5
345-month (per troy oz)	\$1.00 -0.5
348-month (per troy oz)	\$1.00 -0.5
351-month (per troy oz)	\$1.00 -0.5
354-month (per troy oz)	\$1.00 -0.5
357-month (per troy oz)	\$1.00 -0.5
360-month (per troy oz)	\$1.00 -0.5
363-month (per troy oz)	\$1.00 -0.5
366-month (per troy oz)	\$1.00 -0.5
369-month (per troy oz)	\$1.00 -0.5
372-month (per troy oz)	\$1.00 -0.5
375-month (per troy oz)	\$1.00 -0.5
378-month (per troy oz)	\$1.00 -0.5
381-month (per troy oz)	\$1.00 -0.5
384-month (per troy oz)	\$1.00 -0.5
387-month (per troy oz)	\$1.00 -0.5
390-month (per troy oz)	\$1.00 -0.5
393-month (per troy oz)	\$1.00 -0.5
396-month (per troy oz)	\$1.00 -0.5
399-month (per troy oz)	\$1.00 -0.5
402-month (per troy oz)	\$1.00 -0.5
405-month (per troy oz)	\$1.00 -0.5
408-month (per troy oz)	\$1.00 -0.5
411-month (per troy oz)	\$1.00 -0.5
414-month (per troy oz)	\$1.00 -0.5
417-month (per troy oz)	\$1.00 -0.5
420-month (per troy oz)	\$1.00 -0.5
423-month (per troy oz)	\$1.00 -0.5
426-month (per troy oz)	\$1.00 -0.5
429-month (per troy oz)	\$1.00 -0.5
432-month (per troy oz)	\$1.00 -0.5
435-month (per troy oz)	\$1.00 -0.5
438-month (per troy oz)	\$1.00 -0.5
441-month (per troy oz)	\$1.00 -0.5
444-month (per troy oz)	\$1.00 -0.5
447-month (per troy oz)	\$1.00 -0.5
450-month (per troy oz)	\$1.00 -0.5
453-month (per troy oz)	\$1.00 -0.5
456-month (per troy oz)	\$1.00 -0.5
459-month (per troy oz)	\$1.00 -0.5
462-month (per troy oz)	\$1.00 -0.5
465-month (per troy oz)	\$1.00 -0.5
468-month (per troy oz)	\$1.00 -0.5
471-month (per troy oz)	\$1.00 -0.5
474-month (per troy oz)	\$1.00 -0.5
477-month (per troy oz)	\$1.00 -0.5
480-month (per troy oz)	\$1.00 -0.5
483-month (per troy oz)	\$1.00 -0.5
486-month (per troy oz)	\$1.00 -0.5
489-month (per troy oz)	\$1.00 -0.5
492-month (per troy oz)	\$1.00 -0.5
495-month (per troy oz)	\$1.00 -0.5
498-month (per troy oz)	\$1.00 -0.5
501-month (per troy oz)	\$1.00 -0.5
504-month (per troy oz)	\$1.00 -0.5
507-month (per troy oz)	\$1.00 -0.5
510-month (per troy oz)	\$1.00 -0.5
513-month (per troy oz)	\$1.00 -0.5
516-month (per troy oz)	\$1.00 -0.5
519-month (per troy oz)	\$1.00 -0.5
522-month (per troy oz)	\$1.00 -0.5
525-month (per troy oz)	\$1.00 -0.5
528-month (per troy oz)	\$1.00 -0.5
531-month (per troy oz)	\$1.00 -0.5
534-month (per troy oz)	\$1.00 -0.5
537-month (per troy oz)	\$1.00 -0.5
540-month (per troy oz)	\$1.00 -0.5
543-month (per troy oz)	\$1.00 -0.5
546-month (per troy oz)	\$1.00 -0.5
549-month (per troy oz)	\$1.00 -0.5
552-month (per troy oz)	\$1.00 -0.5
555-month (per troy oz)	\$1.00 -0.5
558-month (per troy oz)	\$1.00 -0.5
561-month (per troy oz)	\$1.00 -0.5
564-month (per troy oz)	\$1.00 -0.5
567-month (per troy oz)	\$1.00 -0.5
570-month (per troy oz)	\$1.00 -0.5
573-month (per troy oz)	\$1.00 -0.5
576-month (per troy oz)	\$1.00 -0.5
579-month (per troy oz)	\$1.00 -0.5
582-month (per troy oz)	\$1.00 -0.5
585-month (per troy oz)	\$1.00 -0.5
588-month (per troy oz)	\$1.00 -0.5
591-month (per troy oz)	\$1.00 -0.5
594-month (per troy oz)	\$1.00 -0.5
597-month (per troy oz)	\$1.00 -0.5
600-month (per troy oz)	\$1.00 -0.5
603-month (per troy oz)	\$1.00 -0.5
606-month (per troy oz)	\$1.00 -0.5
609-month (per troy oz)	\$1.00 -0.5
612-month (per troy oz)	\$1.00 -0.5
615-month (per troy oz)	\$1.00 -0.5
618-month (per troy oz)	\$1.00 -0.5
621-month (per troy oz)	\$1.00 -0.5
624-month (per troy oz)	\$1.00 -0.5
627-month (per troy oz)	\$1.00 -0.5
630-month (per troy oz)	\$1.00 -0.5
633-month (per troy oz)	\$1.00 -0.5
636-month (per troy oz)	\$1.00 -0.5
639-month (per troy oz)	\$1.00 -0.5
642-month (per troy oz)	\$1.00 -0.5
645-month (per troy oz)	\$1.00 -0.5
648-month (per troy oz)	\$1.00 -0.5
651-month (per troy oz)	\$1.00 -0.5
654-month (per troy oz)	\$1.00 -0.5
657-month (per troy oz)	\$1.00 -0.5
660-month (per troy oz)	\$1.00 -0.5
663-month (per troy oz)	\$1.00 -0.5
666-month (per troy oz)	\$1.00 -0.5
669-month (per troy oz)	\$1.00 -0.5
672-month (per troy oz)	\$1.00 -0.5
675-month (per troy oz)	\$1.00 -0.5
678-month (per troy oz)	\$1.00 -0.5
681-month (per troy oz)	\$1.00 -0.5
684-month (per troy oz)	\$1.00 -0.5
687-month (per troy oz)	\$1.00 -0.5
690-month (per troy oz)	\$1.00 -0.5
693-month (per troy oz)	\$1.00 -0.5
696-month (per troy oz)	\$1.00 -0.5
699-month (per troy oz)	\$1.00 -0.5
702-month (per troy oz)	\$1.00 -0.5
705-month (per troy oz)	\$1.00 -0.5
708-month (per troy oz)	\$1.00 -0.5
711-month (per troy oz)	\$1.00 -0.5
714-month (per troy oz)	\$1.00 -0.5
717-month (per troy oz)	\$1.00 -0.5
720-month (per troy oz)	\$1.00 -0.5
723-month (per troy oz)	\$1.00 -0.5
726-month (per troy oz)	\$1.00 -0.5
729-month (per troy oz)	\$1.00 -0.5
732-month (per troy oz)	\$1.00 -0.5
735-month (per troy oz)	\$1.00 -0.5
738-month (per troy oz)	\$1.00 -0.5
741-month (per troy oz)	\$1.00 -0.5
744-month (per troy oz)	\$1.00 -0.5
747-month (per troy oz)	\$1.00 -0.5
750-month (per troy oz)	\$1.00 -0.5
753-month (per troy oz)	\$1.00 -0.5
756-month (per troy oz)	\$1.00 -0.5
759-month (per troy oz)	\$1.00 -0.5
762-month (per troy oz)	\$1.00 -0.5
765-month (per troy oz)	\$1.00 -0.5
768-month (per troy oz)	\$1.00 -0.5
771-month (per troy oz)	\$1.00 -0.5
774-month (per troy oz)	\$1.00 -0.5
777-month (per troy oz)	\$1.00 -0.5
780-month (per troy oz)	\$1.00 -0.5
783-month (per troy oz)	\$1.00 -0.5
786-month (per troy oz)	\$1.00 -0.5
789-month (per troy oz)	\$1.00 -0.5
792-month (per troy oz)	\$1.00 -0.5
795-month (per troy oz)	\$1.00 -0.5
798-month (per troy oz)	\$1.00 -0.5
801-month (per troy oz)	\$1.00 -0.5
804-month (per troy oz)	\$1.00 -0.5
807-month (per troy oz)	\$1.00 -0.5
810-month (per troy oz)	\$1.00 -0.5
813-month (per troy oz)	\$1.00 -0.5
816-month (per troy oz)	\$1.00 -0.5
819-month (per troy oz)	\$1.00 -0.5
822-month (per troy oz)	\$1.00 -0.5
825-month (per troy oz)	\$1.00 -0.5
828-month (per troy oz)	\$1.00 -0.5
831-month (per troy oz)	\$1.00 -0.5
834-month (per troy oz)	\$1.00 -0.5
837-month (per troy oz)	\$1.00 -0.5
840-month (per troy oz)	\$1.00 -0.5
843-month (per troy oz)	\$1.00 -0.5
846-month (per troy oz)	\$1.00 -0.5
849-month (per troy oz)	\$1.00 -0.5
852-month (per troy oz)	\$1.00 -0.5
855-month (per troy oz)	\$1.00 -0.5
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864-month (per troy oz)	\$1.00 -0.5
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876-month (per troy oz)	\$1.00 -0.5
879-month (per troy oz)	\$1.00 -0.5
882-month (per troy oz)	\$1.00 -0.5
885-month (per troy oz)	\$1.00 -0.5
888-month (per troy oz)	\$1.00 -0.5
891-month (per troy oz)	\$1.00 -0.5
894-month (per troy oz)	\$1.00 -0.5
897-month (per troy oz)	\$1.00 -0.5
900-month (per troy oz)	\$1.00 -0.5
903-month (per troy oz)	\$1.00 -0.5
906-month (per troy oz)	\$1.00 -0.5
909-month (per troy oz)	\$1.00 -0.5
912-month (per troy oz)	\$1.00 -0.5
915-month (per troy oz)	\$1.00 -0.5
918-month (per troy oz)	\$1.00 -0.5
921-month (per troy oz)	\$1.00 -0.5
924-month (per troy oz)	\$1.00 -0.5
927-month (per troy oz)	\$1.00 -0.5
930-month (per troy oz)	\$1.00 -0.5
933-month (per troy oz)	\$1.00 -0.5
936-month (per troy oz)	\$1.00 -0.5
939-month (per troy oz)	\$1.00 -0.5
942-month (per troy oz)	\$1.00 -0.5
945-month (per troy oz)	\$1.00 -0.5
948-month (per troy oz)	\$1.00 -0.5
951-month (per troy oz)	\$1.00 -0.5
954-month (per troy oz)	\$1.00 -0.5
957-month (per troy oz)	\$1.00 -0.5
960-month (per troy oz)	\$1.00 -0.5
963-month (per troy oz)	\$1.00 -0.5
966-month (per troy oz)	\$1.00 -0.5
969-month (per troy oz)	\$1.00 -0.5
972-month (per troy oz)	\$1.00 -0.5
975-month (per troy oz)	\$1.00 -0.5
978-month (per troy oz)	\$1.00 -0.5
981-month (per troy oz)	\$1.00 -0.5
984-month (per troy oz)	\$1.00 -0.5
987-month (per troy oz)	\$1.00 -0.5
990-month (per troy oz)	\$1.00 -0.5
993-month (per troy oz)	\$1.00 -0.5
996-month (per troy oz)	\$1.00 -0.5
999-month (per troy oz)	\$1.00 -0.5
1002-month (per troy oz)	\$1.00 -0.5
1005-month (per troy oz)	\$1.00 -0.5
1008-month (per troy oz)	\$1.00 -0.5
1011-month (per troy oz)	\$1.00 -0.5
1014-month (per troy oz)	\$1.00 -0.5
1017-month (per troy oz)	\$1.00 -0.5
1020-month (per troy oz)	\$1.00 -0.5
1023-month (per troy oz)	\$1.00 -0.5
1026-month (per troy oz)	\$1.00 -0.5
1029-month (per troy oz)	\$1.00 -0.5
1032-month (per troy oz)	\$1.00 -0.5
1035-month (per troy oz)	\$1.00 -0.5
1038-month (per troy oz)	\$1.00 -0.5
1041-month (per troy oz)	\$1.00 -0.5
1044-month (per troy oz)	\$1.00 -0.5
1047-month (per troy oz)	\$1.00 -0.5
1050-month (per troy oz)	\$1.00 -0.5
1053-month (per troy oz)	\$1.00 -0.5
1056-month (per troy oz)	\$1.00 -0.5
1059-month (per troy oz)	\$1.00 -0.5
1062-month (per troy oz)	\$1.00 -0.5
1065-month (per troy oz)	\$1.00 -0.5
1068-month (per troy oz)	\$1.00 -0.5
1071-month (per troy oz)	\$1.00 -0.5
1074-month (per troy oz)	\$1.00 -0.5
1077-month (per troy oz)	\$1.00 -0.5
1080-month (per troy oz)	\$1.00 -0.5
1083-month (per troy oz)	\$1.00 -0.5
1086-month (per troy oz)	\$1.00 -0.5
1089-month (per troy oz)	\$1.00 -0.5
1092-month (per troy oz)	\$1.00 -0.5
1095-month (per troy oz)	\$1.00 -0.5
1098-month (per troy oz)	\$1.00 -0.5
1101-month (per troy oz)	\$1.00 -0.5
1104-month (per troy oz)	\$1.00 -0.5
1107-month (per troy oz)	\$1.00 -0.5
1110-month (per troy oz)	\$1.00 -0.5
1113-month (per troy oz)	\$1.00 -0.5
1116-month (per troy oz)	\$1.00 -0.5
1119-month (per troy oz)	\$1.00 -0.5
1122-month (per troy oz)	\$1.00 -0.5
1125-month (per troy oz)	\$1.00 -0.5
1128-month (per troy oz)	\$1.00 -0.5
1131-month (per troy oz)	\$1.00 -0.5
1134-month (per troy oz)	\$1.00 -0.5
1137-month (per troy oz)	\$1.00 -0.5
1140-month (per troy oz)	\$1.00 -0.5
1143-month (per troy oz)	\$1.00 -0.5
1146-month (per troy oz)	\$1.00 -0.5
1149-month (per troy oz)	\$1.00 -0.5
1152-month (per troy oz)	\$1.0



# Rally peters out before trading closes

By Terry Byland,  
UK Stock Market Editor

A FAVOURABLE report on the domestic economy from the UK Treasury helped the London stock market rally from early weakness yesterday. But the FT-SE 100 Index was edging lower in the final minutes after a mixed set of company trading announcements left the market nervous ahead of what promises to be a test of market confidence today.

Suggestions of a large rights issue in the food manufacturing sector this morning subdued traders, who were already cautious ahead of today's profits statements from Glaxo, British Gas and RTZ, as well as the meeting of the Bundesbank policy committee.

A highly disappointing interim profits report from P & O, the cross-Channel ferry operator and property group, was received badly. But this was balanced by better news from Wimpey, the house-builder, and from Prudential, the blue chip insurance group.

In early deals, equities gave ground sharply, albeit without suffering any great selling pressure. The Footsie lost a further 16.5, bringing it down to 3,022.1 and increasing traders' concern over the depth of the shakeout seen since last week's peak.

However, a rally then set in which gathered pace for a

while after the latest monthly report from the UK Treasury stressed the falls in real interest rates in the UK, downward pressures on inflation and rising retail sales.

The early losses in share prices were recovered and the Footsie only just failed to move into positive territory, helped by firmness in the government bond market as sterling improved behind the Treasury's report. But later in the session, a weak opening on Wall Street, down 14 Dow points in London hours, led UK stocks to drift off again for a final close on the FT-SE 100 of 3,035.4, a loss of 3.2 on the day. The FT-SE Mid 250 Index shed 7.8 to 3,462.4.

Seag trading volume dipped to 600.3m shares, from 636.2m on Tuesday, when customer, or retail, business made a good

recovery after Wall Street's closure on Monday, to return a value total of £1.35bn. This compares well with the turnover levels seen at the market peak. Non-Footsie shares were active yesterday, representing about 62 per cent of the Seag total.

The London market was held back by continued weakness in the pharmaceuticals sector, which took its lead from a fall

in Glaxo ahead of the trading report. Oil shares, too, reacted to lack of support for crude oil prices.

Domestic consumer and retail sectors tried to respond to the favourable comments from the UK Treasury but gains were mostly modest and were trimmed back before the close. The telecommunications sector, shaken up on Tuesday by Mercury's plans to increase competition in the mobile phones market, steadied.

Analysts were disinclined to pronounce on the prospects of a cut in rates by the Bundesbank today, although some claimed that nothing short of a full point cut in discount rate would have much effect on the London market.

The FT-SE Actuaries UK Indices Committee yesterday approved the following constituent changes to the FT-SE 100 Index, to take effect on Monday, September 20. Additions: MKPC, Rolle-Boysce, Schroders, Deletions: De La Rue, Tate & Lyle, Scottish Hydro-Electric.

Account Dealing Dates  
First Dealing Date: Aug 18, Sep 6, Sep 20  
Option Expiry Dates: Sep 2, Sep 16, Sep 30  
Last Dealing Date: Sep 17, Oct 1  
Account Start: Sep 27, Oct 11  
New time dealing may take place from two business days earlier.

TRADING VOLUME IN MAJOR STOCKS										
Volume	Change	Day's	Volume	Change	Day's	Volume	Change	Day's	Volume	
£m	%	Change	£m	%	Change	£m	%	Change	£m	
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000	+1.2	ASDA Group	2,000
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Based on the trading volume for a selection of Alpha securities dealt through the SEAD system yesterday until 4.30pm. Trades of one million or more are rounded down. % indicates an FT-SE 100 index constituent.

## P & O hit by profit revisions

TRANSPORT and property group Peninsular and Oriental Steam Navigation (P & O) suffered a steep drop after the company stunned the market by reporting interim figures significantly below the worst market forecasts.

Profits fell 11 per cent to £80.1m, against a restated £80.9m. The range of forecasts was £56m to £130m. The shares initially hardened a penny to 66p as dealers appreciated the fact that the company was to make a much predicted enhanced scrip dividend alternative.

However, this brief optimism turned to gloom as analysts were presented with a poor view of the near term outlook at their meeting with the board. Aside from the disappointing profits, researchers were particularly concerned by the higher than expected debt levels, the prospect of stiffer competition from the Channel tunnel next year, and overcapacity in the container shipping market.

As securities houses downgraded current and following year's forecasts, the shares dropped 49 to 61p in hefty trade of 16m, the highest daily total since 1989, with income funds said to have been the day's biggest sellers.

Analysts were particularly angry that the company had given no indication of the state of current trading, several complaining that this could have been covered when the company met them in June.

Mr Mike Stoddard at Charter House Tilney, who reduced his

year-end forecast by 23m to £225m, said: "It appears the City confused the company's long term optimism with the state of current trading."

UBS was said to have cut its forecast by £40m to £250m, while Nikko was believed to have reduced its estimate by £25m to £35m.

**Blenheim drops**

The recession in continental Europe lay behind a sharp fall in the share price of Blenheim, the conference and exhibitions organiser, which dropped 43 to 35p, a two-year low.

Blenheim announced an 18 per cent rise in first-half profits to £15.4m, but the company generates much of its profits from France. It said yesterday: "There have been some signs of revival in the economies of the US and UK but those of France and Germany have continued to deteriorate."

The statement upset a number of analysts' forecasts, and Blenheim's broker BZW cut its 1994 prediction by 21m to £43m. Reed International, which is also heavily exposed to European exhibitions, fell 11 to 70p.

**Reuters leaps**

News and electronic information group Reuters Holdings jumped in late trading as US buyers, unable to find stock in their home market, bought through the London market ahead of a key presentation in New York.

Dealers who trade between New York and London reported sharp interest from Merrill Lynch and several small US brokers which boosted the share price by 26 to 154p.

Senior Reuters board members will give a seminar in New York to analysts early next week to discuss the company's forthcoming projects.

**Cadbury speculation**

More talk of a rights issue to accompany results from Cadbury Schweppes this morning was heard. Rumour-mongers attempting to put more gloss on the story were speculating that the company would be looking to raise an additional £200m to buy either a beer producer in the US, or to increase its stake in Dr Pepper. Suggestions of a bid for United Brands also resurfaced amid the chatter. However, Cadbury shares withstood the uncertainty, rallying to close 2 up at 470p in turnover of 2.2m. UB lost 8 to 370p.

Airtours shares moved forward 6 to 413p. Later in the session, the company announced it was changing its broker from BZW to Hoare Govett. It also emerged that it was also seeking its financial PR and adding Morgan Grenfell as bankers. Earlier this year, Airtours narrowly lost a bitter battle for control of rival holiday operator Owners Abroad. Its shares nudged up a penny to 87p.

Pharmaceutical stocks slid in early trade, following weaker

month forecast for the share price by 50p to 650p. Pearson shares closed 12 higher at 522p and Granada, which also has a stake in the satellite TV channel, lifted 3 to 445p.

Meanwhile, Carlton Communications whose video duplication business is likely to suffer from the new pay per view video services that have been discussed by BSkyB slipped 12 to 75p.

Oil stocks slipped in reaction to lower crude prices, which fell sharply after the International Energy Agency cut global demand forecasts on Tuesday, and concern about an OPEC meeting in Geneva on September 25. Enterprise led the fall, losing 12 at 475p after a good run in the past three weeks. Shell was down 5 at 665p and BP fell 4 to 269p.

British Gas was firm ahead of first-half results today closing 1 1/2 ahead at 329p. The company, announced, last month it expected to report a profit of not less than £500m on a current cost basis, after £490m a year ago and £634m on an historical cost basis, after £635m.

Stores stocks responded to reports of continued recovery in retail sales. Kleinwort Benson was also steady, with investors in search of short-term gain towards selected consumer shares. Amongst stores, Boots gained 8 to 493p, GUS 38 to 210p and WH Smith 4 to 458p.

With the army and navy equipment exhibition currently being held in Aldershot, VSEL was in demand and the shares gained 11 to 87p, with several investors having visited the company at the show.

Bargain hunters reared William Holdings, whose figures earlier this week had disappointed the market. The shares bounced 4 to 390p, in trade of 2.7m.

Shares in British Airways gained 6 to 367p in active trade of 5.9m with Kleinwort Benson said to have recommended the stock. Ocean Group disappointed the market by reporting interim figures, unchanged from a year earlier at £20.8m and an unchanged dividend at 4.7p. The shares fell 9 to 325p.

RTZ, the world's biggest mining group, fell 5 to 718p ahead of first half results today.

General trader Inchcape gained 3 to 583p as Gartmore, the investment fund,

media conglomerate Pearson, which owns the Financial Times, lifted after BSkyB, in which Pearson has an interest of 17.5 per cent, unveiled first full-year profits of £62.8m before interest payments. Also, S.G. Warburg raised its 12-

**FINANCIAL TIMES EQUITY INDICES**

Index	8 Sep	7 Sep	6 Sep	5 Sep	4 Sep	3 Sep	2 Sep	1 Sep	High	Low
FT-SE 100	3035.4	3022.2	3027.5	3030.1	3025.2	3026.5	3028.2	3029.7	3037.8	3022.1
FT-SE 250	3462.4	3461.2	3461.8	3461.3	3461.5	3462.0	3462.1	3461.7	3462.3	3460.5
FT-SE 100 High	3035.4	3022.2	3027.5	3030.1	3025.2	3026.5	3028.2	3029.7	3037.8	3022.1

For 1993, Cadbury shares index since completion high 3414.2 (27/09/93) - low 45.4 (26/04/93). Gold index since completion high 174.1 (26/09/93) - low 45.6 (29/07/93).

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announced it had increased its stake to 4.01 per cent.

UK Land, which underwent a financial reconstruction involving a 22-for-1 rights issue on Tuesday, again saw further gains in its shares. After opening at 1 1/2p on Tuesday and closing at 2 1/2p, it advanced 20p yesterday to finish at 51p.

Nervous trading in international conglomerate BTR left the shares 2 lighter at 39p, ahead of today's figures. Volume was 4.3m at the close.

Agency broker Panmure Gordon was said to have advised investors to sell Cookson group. The shares shed 4 to 21p.

**MARKET REPORTERS:**

Christopher Price,  
Peter John,  
Joel Kibazo.

Other statistics, Page 25

## FT-SE Actuaries Share Indices

### THE UK SERIES

#### FT-SE 100 3035.4 -3.2

#### FT-SE MID 250 3462.4 -7.8

#### FT-A ALL-SHARE 1509.36 -2.02

#### Hourly movements

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#### FT-SE MID 250 3462.4 -7.8



## AMERICANS

Company	Price	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599
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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Stock	Price	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	99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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## More optimism on rate cut

THE DOLLAR edged up slightly against the D-Mark yesterday as dealers appeared a little more optimistic about the prospect of an official interest rate cut by the Bundesbank today, writes James Blitz.

There was no indication from the German central bank that it was thinking of reducing the interest rate floor, currently at 6.75 per cent. But German commercial banks appeared optimistic yesterday that there would be an easing, and did not bid for funds aggressively at the established repo rate of 6.80 per cent in the weekly money market operation.

This had an impact on the currency markets, where one London dealer talked of "mild position squaring" by dealers. The dollar closed at DM1.6190 from a previous DM1.6105.

The dollar strengthened more sharply against the yen, as dealers continued to ponder whether Japan would introduce a substantial fiscal stimulus later this year as part of a deal with the US. The dollar closed at ¥106.65 from a previous ¥104.00.

Mr David Cocker, chief economist at Chemical Bank in London, thinks that the dollar will not fall far this week.

## £ IN NEW YORK

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

Forward premiums and discounts apply to the US dollar.

## STERLING INDEX

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

## CURRENCY RATES

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

## CURRENCY MOVEMENTS

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

## OTHER CURRENCIES

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

## MONEY MARKETS

## Overnight at 20%

THE OVERNIGHT interest rate in the sterling cash market was quoted as high as 20 per cent yesterday after some of the leading players in the market refused to offer bills to the Bank of England at the start of trading, writes James Blitz.

There was a lack of liquidity in the market after the Bank of England offered a comparatively large shortage of £2.5bn. Only £315m of bills were offered in the early round and it was not until the afternoon session that the bulk of the shortage was removed.

## UK clearing banks best lending rate

from January 25, 1993

Banks and discount houses borrowed £730m via the "late assistance" window at which it is suspected that they pay puny interest rates.

Yesterday's difficult conditions appeared to be the result of several factors which are again causing concern to discount house dealers in London.

The shortages in recent months have become very large because of the government's huge sale of gilts to fund its Public Sector Borrowing Requirement.

At the same time, one or two UK clearing banks are thought to have built up a substantial

whatever the Bundesbank does. He believes that no change in rates would lead to only modest profit-taking on the downside. Cuts in 25 or 50 basis points would push the dollar up modestly.

But Mr Cocker is one of the growing number of economists who think that the dollar is heading for a more substantial fall in the next 3 months, possibly as low as DM1.55. In his view, there is little chance of the Federal Reserve tightening policy before the end of the year or of a significant German easing. But more importantly, fund managers are still heavily overweight in dollars. "When we get to the DM1.55 or DM1.50 level, fund managers will seriously take a look at their dollar weightings," he said.

In the European crosses, sterling again dominated events, moving up sharply in the wake of a particularly encouraging monthly monetary report from the UK Treasury.

## EMS EUROPEAN CURRENCY UNIT RATES

Unit	1992	1993	% Change	% Spread	Overweight
Dutch Guilder	1.9672	1.9672	-0.48	6.77	-
D-Mark	1.9364	1.9364	0.72	3.22	-
French Franc	193.64	193.64	0.72	3.22	-
Italian Lira	1,936.40	1,936.40	0.72	3.22	-
Portuguese Escudo	200.48	200.48	0.72	3.22	-
Spanish Peseta	166.64	166.64	0.72	3.22	-
Swiss Franc	1.9364	1.9364	0.72	3.22	-
West German Mark	1.9364	1.9364	0.72	3.22	-

Unit central rates set by the European Communities. Currencies are in descending order of strength. Percentage change in the unit value since the start of the year. Overweight indicates a unit is overweighted in the EMS basket, and the spread indicates the percentage difference between the actual market rate and the unit value. The unit value is the average of the unit values of the currencies in the EMS basket. The unit value is the average of the unit values of the currencies in the EMS basket.

## POUND SPOT - FORWARD AGAINST THE POUND

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

## EURO-CURRENCY INTEREST RATES

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

## EXCHANGE CROSS RATES

Spot	1 Month	3 Month	6 Month
£100/\$	1.5410-1.5420	1.5390-1.5400	1.5360-1.5370
£1/\$	0.6485-0.6495	0.6475-0.6485	0.6465-0.6475
12 month	0.6455-0.6465	0.6445-0.6455	0.6435-0.6445

## POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

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## FINANCIAL FUTURES AND OPTIONS

## LIVE LONG BULL FUTURES OPTIONS

0000 64th of 100%				0000 64th of 100%			
Strike	Call	Put	Settlement	Strike	Call	Put	Settlement
111.5	0.15	0.15	0.15	111.5	0.15	0.15	0.15
112.5	0.15	0.15	0.15	112.5	0.15	0.15	0.15
113.5	0.15	0.15	0.15	113.5	0.15	0.15	0.15
114.5	0.15	0.15	0.15	114.5	0.15	0.15	0.15
115.5	0.15	0.15	0.15	115.5	0.15	0.15	0.15
116.5	0.15	0.15	0.15	116.5	0.15	0.15	0.15
117.5	0.15	0.15	0.15	117.5	0.15	0.15	0.15
118.5	0.15	0.15	0.15	118.5	0.15	0.15	0.15
119.5	0.15	0.15	0.15	119.5	0.15	0.15	0.15
120.5	0.15	0.15	0.15	120.5	0.15	0.15	0.15
121.5	0.15	0.15	0.15	121.5	0.15	0.15	0.15
122.5	0.15	0.15	0.15	122.5	0.15	0.15	0.15
123.5	0.15	0.15	0.15	123.5	0.15	0.15	0.15
124.5	0.15	0.15	0.15	124.5	0.15	0.15	0.15
125.5	0.15	0.15	0.15	125.5	0.15	0.15	0.15
126.5	0.15	0.15	0.15	126.5	0.15	0.15	0.15
127.5	0.15	0.15	0.15	127.5	0.15	0.15	0.15
128.5	0.15	0.15	0.15	128.5	0.15	0.15	0.15
129.5	0.15	0.15	0.15	129.5	0.15	0.15	0.15
130.5	0.15	0.15	0.15	130.5	0.15	0.15	0.15
131.5	0.15	0.15	0.15	131.5	0.15	0.15	0.15
132.5	0.15	0.15	0.15	132.5	0.15	0.15	0.15
133.5	0.15	0.15	0.15	133.5	0.15	0.15	0.15
134.5	0.15	0.15	0.15	134.5	0.15	0.15	0.15
135.5	0.15	0.15	0.15	135.5	0.15	0.15	0.15
136.5	0.15	0.15	0.15	136.5	0.15	0.15	0.15
137.5	0.15	0.15	0.15	137.5	0.15	0.15	0.15
138.5	0.15	0.15	0.15	138.5	0.15	0.15	0.15
139.5	0.15	0.15	0.15	139.5	0.15	0.15	0.15
140.5	0.15	0.15	0.15	140.5	0.15	0.15	0.15
141.5	0.15	0.15	0.15	141.5	0.15	0.15	0.15
142.5	0.15	0.15	0.15	142.5	0.15	0.15	0.15
143.5	0.15	0.15	0.15	143.5	0.15	0.15	0.15
144.5	0.15	0.15	0.15	144.5	0.15	0.15	0.15
145.5	0.15	0.15	0.15	145.5	0.15	0.15	0.15
146.5	0.15	0.15	0.15	146.5	0.15	0.15	0.15
147.5	0.15	0.15	0.15	147.5	0.15	0.15	0.15
148.5	0.15	0.15	0.15	148.5	0.15	0.15	0.15
149.5	0.15	0.15	0.15	149.5	0.15	0.15	0.15
150.5	0.15	0.15	0.15	150.5	0.15	0.15	0.15
151.5	0.15	0.15	0.15	151.5	0.15	0.15	0.15
152.5	0.15	0.15	0.15	152.5	0.15	0.15	0.15
153.5	0.15	0.15	0.15	153.5	0.15	0.15	0.15
154.5	0.15	0.15	0.15	154.5	0.15	0.15	0.15
155.5	0.15	0.15	0.15	155.5	0.15	0.15	0.15
156.5	0.15	0.15	0.15	156.5	0.15	0.15	0.15
157.5	0.15	0.15	0.15	157.5	0.15	0.15	0.15
158.5	0.15	0.15	0.15	158.5	0.15	0.15	0.15
159.5	0.15	0.15	0.15	159.5	0.15	0.15	0.15
160.5	0.15	0.15	0.15	160.5	0.15	0.15	0.15
161.5	0.15	0.15	0.15	161.5	0.15	0.15	0.15
162.5	0.15	0.15	0.15	162.5	0.15	0.15	0.15
163.5	0.15	0.15	0.15	163.5	0.15	0.15	0.15
164.5	0.15	0.15	0.15	164.5	0.15	0.15	0.15
165.5	0.15	0.15	0.15	165.5	0.15	0.15	0.15
166.5	0.15	0.15	0.15	166.5	0.15	0.15	0.15
167.5	0.15	0.15	0.15	167.5	0.15	0.15	0.15
168.5	0.15	0.15	0.15	168.5	0.15	0.15	0.15
169.5	0.15	0.15	0.15	169.5	0.15	0.15	0.15
170.5	0.15	0.15	0.15	170.5	0.15	0.15	0.15
171.5	0.15	0.15	0.15	171.5	0.15	0.15	0.15
172.5	0.15	0.15	0.15	172.5	0.15	0.15	0.15
173.5	0.15	0.15	0.15	173.5	0.15	0.15	0.15
174.5	0.15	0.15	0.15	174.5	0.15	0.15	0.15
175.5	0.15	0.15	0.15	175.5	0.15	0.15	0.15
176.5	0.15	0.15	0.15	176.5	0.15	0.15	0.15
177.5	0.15	0.15	0.15	177.5	0.15	0.15	0.15
178.5	0.15	0.15	0.15	178.5	0.15	0.15	0.15
179.5	0.15	0.15	0.15	179.5	0.15	0.15	0.15
180.5	0.15	0.15	0.15	180.5	0.15	0.15	0.15
181.5	0.15	0.15	0.15	181.5	0.15	0.15	0.15
182.5	0.15	0.15	0.15	182.5	0.15	0.15	0.15
183.5	0.15	0.15	0.15	183.5	0.15	0.15	0.15
184.5	0.15	0.15	0.15	184.5	0.15	0.15	0.15
185.5	0.15	0.15	0.15	185.5	0.15	0.15	0.15
186.5	0.15	0.15	0.15	186.5	0.15	0.15	0.15
187.5	0.15	0.15	0.15	187.5	0.15	0.15	0.15
188.5	0.15	0.15	0.15	188.5	0.15	0.15	0.15
189.5	0.15	0.15	0.15	189.5	0.15	0.15	0.15
190.5	0.15	0.15	0.15	190.5	0.15	0.15	0.15
191.5	0.15	0.15	0.15	191.5	0.15	0.15	0.15
192.5	0.15	0.15	0.15	192.5	0.15	0.15	0.15
193.5	0.15	0.15	0.15	193.5	0.15	0.15	0.15
194.5	0.15	0.15	0.15	194.5	0.15	0.15	0.15
195.5	0.15	0.15	0.15	195.5	0.15	0.15	0.15
196.5	0.15	0.15	0.15	196.5	0.15	0.15	0.15
197.5	0.15	0.15	0.15	197.5	0.15	0.15	0.15
198.5	0.15	0.15	0.15	198.5	0.15	0.15	0.15
199.5	0.15	0.15	0.15	199.5	0.15	0.15	0.15
200.5	0.15	0.15	0.15	200.5	0.15	0.15	0.15
201.5	0.15	0.15	0.15	201.5	0.15	0.15	0.15
202.5	0.15	0.15	0.15	202.5	0.15	0.15	0.15
203.5	0.15	0.15	0.15	203.5	0.15	0.15	0.15
204.5	0.15	0.15	0.15	204.5	0.15	0.15	0.15
205.5	0.15	0.15	0.15	205.5	0.15	0.15	0.15
206.5	0.15	0.15	0.15	206.5	0.15	0.15	0.15
207.5	0.15	0.15	0.15	207.5	0.15	0.15	0.15
208.5	0.15	0.15	0.15	208.5	0.15	0.15	0.15
209.5	0.15	0.15	0.15	209.5	0.15	0.15	0.15
210.5	0.15	0.15	0.15	210.5	0.15	0.15	0.15
211.5	0.15	0.15	0.15	211.5	0.15	0.15	0.15
212.5	0.15	0.15	0.15	212.5	0.15	0.15	0.15
213.5	0.15	0.15	0.15	213.5	0.15	0.15	0.15
214.5	0.15	0.15	0.15	214.5	0.15	0.15	0.15
215.5	0.15	0.15	0.15	215.5	0.15	0.15	0.15
216.5	0.15	0.15	0.15	216.5	0.15	0.15	0.15
217.5	0.15	0.15	0.15	217.5	0.15	0.15	0.15
218.5	0.15	0.15	0.15	218.5	0.15	0.15	0.15
219.5	0.15	0.15	0.15	219.5	0.15	0.15	0.15
220.5	0.15	0.15	0.15	220.5	0.15	0.15	0.15
221.5	0.15	0.15	0.15	221.5	0.15	0.15	0.15
222.5	0.15	0.15	0.15	222.5	0.15	0.15	0.15
223.5	0.15	0.15	0.15	223.5	0.15	0.15	0.15
224.5	0.15	0.15	0.15	224.5	0.15	0.15	0.15
225.5	0.15	0.15	0.15	225.5	0.15	0.15	0.15
226.5	0.15	0.15	0.15	226.5	0.15	0.15	0.15
227.5	0.15	0.15	0.15	227.5	0.15	0.15	0.15
228.5	0.15	0.15	0.15	228.5	0.15	0.15	0.15
229.5	0.15	0.15	0.15	229.5	0.15	0.15	0.15
230.5	0.15	0.15	0.15	230.5	0.15	0.15	0.15
231.5	0.15	0.15	0.15	231.5	0.15	0.15	0.15
232.5	0.15	0.15	0.15	232.5	0.15	0.15	0.15
233.5	0.15	0.15	0.15	233.5	0.15	0.15	0.15
234.5	0.15	0.15	0.15	234.5	0.15	0.15	0.15
235.5	0.15	0.15	0.15	235.5	0.15	0.15	0.15
236.5	0.15	0.15	0.15	236.5	0.15	0.15	0.15
237.5	0.15	0.15	0.15	237.5	0.15	0.15	0.15
238.5	0.15	0.15	0.15	238.5	0.15	0.15	0.15
239.5	0.15	0.15	0.15	239.5	0.15	0.15	0.15
240.5	0.15	0.15	0.15	240.5	0.15	0.15	0.15
241.5	0.15	0.15	0.15	241.5	0.15	0.15	0.15
242.5	0.15	0.15	0.15	242.5	0.15	0.15	0.15
243.5	0.15	0.15	0.15	243.5	0.15	0.15	0.15
244.5	0.15	0.15	0.15	244.5	0.15	0.15	0.15
245.5	0.15	0.15	0.15	245.5	0.15	0.15	0.15
246.5	0.15	0.15	0.15	246.5	0.15	0.15	0.15
247.5	0.15	0.15	0.15	247.5	0.15	0.15	0.15
248.5	0.15	0.15	0.15	248.5	0.15	0.15	0.15
249.5	0.15	0.15	0.15	249.5	0.15	0.15	0.15
250.5	0.15	0.15	0.15	250.5	0.15	0.15	0.15
251.5	0.15	0.15	0.15	251.5	0.15	0.15	0.15
252.5	0.15	0.15	0.15	252.5	0.15	0.15	0.15
253.5	0.15	0.15	0.15	253.5	0.15	0.15	0.15
254.5	0.15	0.15	0.15	254.5	0.15	0.15	0.15
255.5	0.15	0.15	0.15	255.5	0.15	0.15	0.15
256.5	0.15	0.15	0.15	256.5	0.15	0.15	0.15
257.5	0.15	0.15	0.15	257.5	0.15	0.15	0.15
258.5	0.15	0.15	0.15	258.5	0.15	0.15	0.15
259.5	0.15	0.15	0.15	259.5	0.15	0.15	0.15
260.5	0.15	0.15	0.15	260.5	0.15	0.15	0.15
261.5	0.15	0.15	0.15	261.5	0.15	0.15	0.15
262.5	0.15	0.15	0.15	262.5	0.15	0.15	0.15
263.5	0.15	0.15	0.15	263.5	0.15	0.15	0.15
264.5	0.15	0.15	0.15	264.5	0.15	0.15	0.15
265.5	0.15	0.15	0.15	265.5	0.15	0.15	0.15
266.5	0.15	0.15	0.15	266.5	0.15	0.15	0.15
267.5	0.15	0.15	0.15	267.5	0.15	0.15	0.15
268.5	0.15	0.15	0.15				



# CANADA

Sales	Stock	High	Low	Close	Day	Sales	Stock	High	Low	Close	Day	Sales
TORONTO												
4 pm close September 8												
Quotations in cents unless marked \$												
70575	Abn-Am	\$124	112	124	+	104087	Bank	\$84	82	84	+	104087
49530	Abn-Can	\$144	132	144	+	104088	Bank	\$84	82	84	+	104088
28832	Abn-Can	\$144	132	144	+	104089	Bank	\$84	82	84	+	104089
417	Abn-Can	\$144	132	144	+	104090	Bank	\$84	82	84	+	104090
21738	Abn-Can	\$144	132	144	+	104091	Bank	\$84	82	84	+	104091
1510125	Abn-Can	\$144	132	144	+	104092	Bank	\$84	82	84	+	104092
235400	Abn-Can	\$144	132	144	+	104093	Bank	\$84	82	84	+	104093
312565	Abn-Can	\$144	132	144	+	104094	Bank	\$84	82	84	+	104094
227367	Abn-Can	\$144	132	144	+	104095	Bank	\$84	82	84	+	104095
27710	Abn-Can	\$144	132	144	+	104096	Bank	\$84	82	84	+	104096
32540	Abn-Can	\$144	132	144	+	104097	Bank	\$84	82	84	+	104097
47282	Abn-Can	\$144	132	144	+	104098	Bank	\$84	82	84	+	104098
76500	Abn-Can	\$144	132	144	+	104099	Bank	\$84	82	84	+	104099
501	Abn-Can	\$144	132	144	+	104100	Bank	\$84	82	84	+	104100
100	Abn-Can	\$144	132	144	+	104101	Bank	\$84	82	84	+	104101
358580	Abn-Can	\$144	132	144	+	104102	Bank	\$84	82	84	+	104102
14322	Abn-Can	\$144	132	144	+	104103	Bank	\$84	82	84	+	104103
800000	Abn-Can	\$144	132	144	+	104104	Bank	\$84	82	84	+	104104
197800	Abn-Can	\$144	132	144	+	104105	Bank	\$84	82	84	+	104105
117250	Abn-Can	\$144	132	144	+	104106	Bank	\$84	82	84	+	104106
94280	Abn-Can	\$144	132	144	+	104107	Bank	\$84	82	84	+	104107
17200	Abn-Can	\$144	132	144	+	104108	Bank	\$84	82	84	+	104108
197800	Abn-Can	\$144	132	144	+	104109	Bank	\$84	82	84	+	104109
197800	Abn-Can	\$144	132	144	+	104110	Bank	\$84	82	84	+	104110
197800	Abn-Can	\$144	132	144	+	104111	Bank	\$84	82	84	+	104111
197800	Abn-Can	\$144	132	144	+	104112	Bank	\$84	82	84	+	104112
197800	Abn-Can	\$144	132	144	+	104113	Bank	\$84	82	84	+	104113
197800	Abn-Can	\$144	132	144	+	104114	Bank	\$84	82	84	+	104114
197800	Abn-Can	\$144	132	144	+	104115	Bank	\$84	82	84	+	104115
197800	Abn-Can	\$144	132	144	+	104116	Bank	\$84	82	84	+	104116
197800	Abn-Can	\$144	132	144	+	104117	Bank	\$84	82	84	+	104117
197800	Abn-Can	\$144	132	144	+	104118	Bank	\$84	82	84	+	104118
197800	Abn-Can	\$144	132	144	+	104119	Bank	\$84	82	84	+	104119
197800	Abn-Can	\$144	132	144	+	104120	Bank	\$84	82	84	+	104120
197800	Abn-Can	\$144	132	144	+	104121	Bank	\$84	82	84	+	104121
197800	Abn-Can	\$144	132	144	+	104122	Bank	\$84	82	84	+	104122
197800	Abn-Can	\$144	132	144	+	104123	Bank	\$84	82	84	+	104123
197800	Abn-Can	\$144	132	144	+	104124	Bank	\$84	82	84	+	104124
197800	Abn-Can	\$144	132	144	+	104125	Bank	\$84	82	84	+	104125
197800	Abn-Can	\$144	132	144	+	104126	Bank	\$84	82	84	+	104126
197800	Abn-Can	\$144	132	144	+	104127	Bank	\$84	82	84	+	104127
197800	Abn-Can	\$144	132	144	+	104128	Bank	\$84	82	84	+	104128
197800	Abn-Can	\$144	132	144	+	104129	Bank	\$84	82	84	+	104129
197800	Abn-Can	\$144	132	144	+	104130	Bank	\$84	82	84	+	104130
197800	Abn-Can	\$144	132	144	+	104131	Bank	\$84	82	84	+	104131
197800	Abn-Can	\$144	132	144	+	104132	Bank	\$84	82	84	+	104132
197800	Abn-Can	\$144	132	144	+	104133	Bank	\$84	82	84	+	104133
197800	Abn-Can	\$144	132	144	+	104134	Bank	\$84	82	84	+	104134
197800	Abn-Can	\$144	132	144	+	104135	Bank	\$84	82	84	+	104135
197800	Abn-Can	\$144	132	144	+	104136	Bank	\$84	82	84	+	104136
197800	Abn-Can	\$144	132	144	+	104137	Bank	\$84	82	84	+	104137
197800	Abn-Can	\$144	132	144	+	104138	Bank	\$84	82	84	+	104138
197800	Abn-Can	\$144	132	144	+	104139	Bank	\$84	82	84	+	104139
197800	Abn-Can	\$144	132	144	+	104140	Bank	\$84	82	84	+	104140
197800	Abn-Can	\$144	132	144	+	104141	Bank	\$84	82	84	+	104141
197800	Abn-Can	\$144	132	144	+	104142	Bank	\$84	82	84	+	104142
197800	Abn-Can	\$144	132	144	+	104143	Bank	\$84	82	84	+	104143
197800	Abn-Can	\$144	132	144	+	104144	Bank	\$84	82	84	+	104144
197800	Abn-Can	\$144	132	144	+	104145	Bank	\$84	82	84	+	104145
197800	Abn-Can	\$144	132	144	+	104146	Bank	\$84	82	84	+	104146
197800	Abn-Can	\$144	132	144	+	104147	Bank	\$84	82	84	+	104147
197800	Abn-Can	\$144	132	144	+	104148	Bank	\$84	82	84	+	104148
197800	Abn-Can	\$144	132	144	+	104149	Bank	\$84	82	84	+	104149
197800	Abn-Can	\$144	132	144	+	104150	Bank	\$84	82	84	+	104150
197800	Abn-Can	\$144	132	144	+	104151	Bank	\$84	82	84	+	104151
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197800	Abn-Can	\$144	132	144	+	104154	Bank	\$84	82	84	+	104154
197800	Abn-Can	\$144	132	144	+	104155	Bank	\$84	82	84	+	104155
197800	Abn-Can	\$144	132	144	+	104156	Bank	\$84	82	84	+	104156
197800	Abn-Can	\$144	132	144	+	104157	Bank	\$84	82	84	+	104157
197800	Abn-Can	\$144	132	144	+	104158	Bank	\$84	82	84	+	104158
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197800	Abn-Can	\$144	132	144	+	104177	Bank	\$84	82	84	+	104177
197800	Abn-Can	\$144	132	144	+	104178	Bank	\$84	82	84	+	104178
197800	Abn-Can	\$144	132	144	+	104179	Bank	\$84	82	84	+	104179
197800	Abn-Can	\$144	132	144	+	104180	Bank	\$84	82	84	+	104180
197800	Abn-Can	\$144	132	144	+	104181	Bank	\$84	82	84	+	104181
197800	Abn-Can	\$144	132	144	+	104182	Bank	\$84	82	84	+	104182
197800	Abn-Can	\$144	132	144	+	104183	Bank	\$84	82	84	+	104183
197800	Abn-Can	\$144	132	144	+	104184	Bank	\$84	82	84	+	104184
197800	Abn-Can	\$144	132	144	+	104185	Bank	\$84	82	84	+	104185
197800	Abn-Can	\$144	132	144	+	104186	Bank	\$84	82	84	+	104186
197800	Abn-Can	\$144	132	144	+	104187	Bank	\$84	82	84	+	104187
197800	Abn-Can	\$144	132	144	+	104188	Bank	\$84	82	84	+	104188
197800	Abn-Can	\$144	132	144	+	104189	Bank	\$84	82	84	+	104189
197800	Abn-Can	\$144	132	144	+	104190	Bank	\$84	82	84	+	104190
197800	Abn-Can	\$144	132	144	+	104191	Bank	\$84	82	84	+	104191
197800	Abn-Can	\$144	132	144	+	104192	Bank	\$84	82	84	+	104192
197800	Abn-Can	\$144	132	144	+	104193	Bank	\$84	82	84	+	104193
197800	Abn-Can	\$144	132	144	+	104194	Bank	\$84	82	84	+	104194
197800	Abn-Can	\$144	132	144	+	104195	Bank	\$84	82	84	+	104195
197800	Abn-Can	\$144	132	144	+	104196	Bank	\$84	82	84	+	104196
197800	Abn-Can	\$144	132	144	+	104197	Bank	\$84	82	84	+	104197
197800	Abn-Can	\$144	132	144	+	104198	Bank	\$84	82	84		

Sunshine Milk	4,344,100	21 1/2	- 1/2	New York SE	229,221	185,917	239,084
Homebush	3,680,200	16 1/4	- 1/4	Toronto	21,394	16,845	22,135
Barnard Corp	3,246,200	15 1/4	- 1/4	MAGNOL	14	218,700	224,775
Pleasant Dairy	2,984,200	18 1/4	- 1/4				
Amcor Borker	2,881,400	22	- 2	NYSE			
Wad-Sweet	2,544,500	24 1/4	- 1/4	Income Traded	2,807	2,815	2,814
Ach Milkco	2,230,500	27 1/4	- 1/4	Rieser	798	1,826	896
Mead	2,167,200	32 1/4	- 1/4	Falk	1,230	801	1,020
Glenn	2,156,100	16 1/4	- 1/4	Unifund	911	880	890
Delta Milk	2,054,400	17 1/2	- 1/2	New Rights	151	161	159
				New Loans	15	12	10

CANADA TORONTO																										
	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	
Alcan & Minerals	303.85	310.67	313.22	317.13	318.94 (108)	323.53 (111)																				
Canpotex	402.71	412.80	413.08	414.70	414.70 (108)	327.50 (111)																				
NORTHERN Portfolio	1006.43	1055.22	1057.40	1083.55	1083.55 (110)	1720.97 (111)																				

Below values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Nikkei - 1000. Tenority includes 1972 and 1982 and 1983. \* Calculated based on: \* Indexing, plus 1000, Financial and Transportation, & 1000, &

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## FAR MORE THAN FINANCE.



**4 pm class September 5**

Continued on next page



## NYSE COMPOSITE PRICES

Continued from previous page

Stock	High	Low	Open	Close	Change
22 1/2% S&P 500	1.28	1.28	1.28	1.28	0.00
20% S&P 500	1.28	1.28	1.28	1.28	0.00
15% S&P 500	1.28	1.28	1.28	1.28	0.00
10% S&P 500	1.28	1.28	1.28	1.28	0.00
5% S&P 500	1.28	1.28	1.28	1.28	0.00
0% S&P 500	1.28	1.28	1.28	1.28	0.00
22 1/2% S&P 500	1.28	1.28	1.28	1.28	0.00
20% S&P 500	1.28	1.28	1.28	1.28	0.00
15% S&P 500	1.28	1.28	1.28	1.28	0.00
10% S&P 500	1.28	1.28	1.28	1.28	0.00
5% S&P 500	1.28	1.28	1.28	1.28	0.00
0% S&P 500	1.28	1.28	1.28	1.28	0.00

## NASDAQ NATIONAL MARKET

Stock	High	Low	Open	Close	Change
22 1/2% S&P 500	1.28	1.28	1.28	1.28	0.00
20% S&P 500	1.28	1.28	1.28	1.28	0.00
15% S&P 500	1.28	1.28	1.28	1.28	0.00
10% S&P 500	1.28	1.28	1.28	1.28	0.00
5% S&P 500	1.28	1.28	1.28	1.28	0.00
0% S&P 500	1.28	1.28	1.28	1.28	0.00
22 1/2% S&P 500	1.28	1.28	1.28	1.28	0.00
20% S&P 500	1.28	1.28	1.28	1.28	0.00
15% S&P 500	1.28	1.28	1.28	1.28	0.00
10% S&P 500	1.28	1.28	1.28	1.28	0.00
5% S&P 500	1.28	1.28	1.28	1.28	0.00
0% S&P 500	1.28	1.28	1.28	1.28	0.00

## AMEX COMPOSITE PRICES

Stock	High	Low	Open	Close	Change
22 1/2% S&P 500	1.28	1.28	1.28	1.28	0.00
20% S&P 500	1.28	1.28	1.28	1.28	0.00
15% S&P 500	1.28	1.28	1.28	1.28	0.00
10% S&P 500	1.28	1.28	1.28	1.28	0.00
5% S&P 500	1.28	1.28	1.28	1.28	0.00
0% S&P 500	1.28	1.28	1.28	1.28	0.00
22 1/2% S&P 500	1.28	1.28	1.28	1.28	0.00
20% S&P 500	1.28	1.28	1.28	1.28	0.00
15% S&P 500	1.28	1.28	1.28	1.28	0.00
10% S&P 500	1.28	1.28	1.28	1.28	0.00
5% S&P 500	1.28	1.28	1.28	1.28	0.00
0% S&P 500	1.28	1.28	1.28	1.28	0.00

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**FINANCIAL TIMES**

Perrier bottle ends with something for everyone



AMERICA

# Sell programs take toll on US markets

Wall Street

HEAVY profit-taking and computerised sell programs continued to take a toll on US stock markets yesterday as investors once again ignored surging bond prices, writes Patrick Harverson in New York.

At 1 pm, the Dow Jones Industrial Average was down 29.06 at 3,573.04. The more broadly based Standard & Poor's 500 was 4.08 lower at 454.44, while the Amex composite was down 5.24 at 451.04, and the Nasdaq composite down 14.07 at 725.38. Trading volume on the NYSE was 157m shares by 1 pm.

Prices opened lower across the board as the markets failed to rally from Tuesday's losses, when a late surge of sell programs sent the Dow tumbling more than 26 points. Although stocks just about held their own for the first two and a half hours of trading, just before midday another round of sell programs, and heavy profit-taking in all markets, prompted sizeable losses.

The day's economic news - the publication of the Federal Reserve's Beige Book report on the economy - had little impact upon sentiment. The Beige Book reported that the economy grew at a "slow to moderate" pace in late July and August, little changed from the previous reporting period.

Investors also ignored fresh gains in the rallying Treasury market, where longer-dated securities rose sharply, pushing the yield on the benchmark 30-year government bond down to a new historic low of 5.88 per cent.

Among individual sectors, drug and healthcare stocks, which rallied last week when President Bill Clinton backed down from his original proposals to impose price controls on drug and health services companies, took a beating. Pfizer fell 1% to \$61%, Merck gave

up 5% at \$31%, Johnson & Johnson fell 1% to \$88% and Schering-Plough eased 5% to \$61. Warner-Lambert fell 3% to \$6%, undermined by a ratings downgrade from brokerage house Hambrecht & Quist.

Healthcare stocks on the Nasdaq market were also sharply lower. US Healthcare fell 2% to \$43%, Pacificare Health dropped 4% to \$36, and Oxford Health Plans plunged 8% to \$64%.

Baxter International fell 3% to \$22% in volume of 3m shares after the company warned that its third quarter earnings would come in below those reported a year ago.

Baxter International also announced plans to freeze employee salaries and cut senior managers' pay by as much as 25 per cent.

Selected bank stocks remained a rare bright spot, buoyed by falling interest rates and renewed interest in the recently-neglected sector. First Chicago firmed 4% to \$45%, Citicorp added 3% to \$33% and BankAmerica put on 5% at \$46%.

Nasdaq technology stocks were mostly lower, with Microsoft down 1% at \$76% and Intel down 1% at \$90%.

Canada

TORONTO fell back further after Tuesday's sharp losses, with the TSE 300 composite index losing 77.13 to 3,948.56 at mid-session. Volume was moderate at 41.43m shares valued at C\$477.73m.

Investors reacted to Tuesday's announcement by Nippon Steel, which now expects to fall into a loss for the current business year.

The index slipped to the day's low of 20,816.78 in the morning. However, afternoon support from arbitrage-linked buying pushed it up to the session's high of 20,996.50.

Volume totalled 238m shares, against Tuesday's 251m. Foreign investors, who had previ-

EUROPE

# Senior bourses unable to make much headway

SENIOR bourses drifted yesterday, writes Our Markets Staff.

FRANKFURT saw a weak start as the options and futures market dragged equities to a DAX index intraday low of 1,865, before recovering just before the close to 1,885.29.

Traders reported that selling accelerated when the DAX broke a support level at 1,880, although they added that the market had been looking over-bought and was due for a correction. Turnover improved slightly to DM7bn from Tuesday's low DM6.3bn.

In an absence of corporate news, VW again attracted attention, particularly given conflicting statements from the group's senior management. The shares added DM1.40 to DM362.90 after Mr Ferdinand Piëch said that a dividend would probably be resumed in 1994.

PARIS fell back modestly, the CAC 40 index shedding 7.85 to 2,129.44 in turnover of FF3.2bn.

A further batch of interim

## FT-SE Actuaries Share Indices

September 8	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1270.50	1269.80	1268.50	1271.54	1272.51	1276.80	1286.71	1285.53
FT-SE Eurotrack 200	1367.10	1361.26	1361.07	1365.51	1365.54	1361.87	1363.58	

FT-SE Eurotrack 100	1277.38	1284.01	1283.60	1302.75	1305.63
FT-SE Eurotrack 200	1365.51	1371.90	1364.27	1368.48	1365.51

Time value 100 (20/09/93) High/Low: 100 - 1272.50, 200 - 1368.50 Low/Low: 100 - 1265.47, 200 - 1359.52

results affected share performance: CarnaudMetalbox lost FF10.50 to FF188.50 after reporting that it saw no improvement in profits for the rest of the year, and Valeo gained FF2.30 to FF986 reflecting satisfaction with first half figures. Mr Bob Barber of James Capel, reiterating his sell recommendation, noted that it was difficult to believe Valeo shares could outperform the market "at a time when the prospects for companies in the sector are generally being regarded with growing caution and ahead of what we believe will be a downward reaction in the price of automotive

shares". AMSTERDAM experienced a further correction, with the CBS Tendency index falling 2.5 or 2 per cent at 123.9 in good turnover.

The market had a second look at Ahold's results and marked the shares down FI 3.50 at FI 87.70, while a fall in Groenich of FI 1.70 to FI 39.30 on disappointment with its interim, dragged Heineken off FI 4.10 to FI 182.30. Bols Wessanen was down FI 1.50 to FI 42.20 ahead of today's results.

MILAN remained on a downward track, not helped by program selling ahead of tomorrow's options expiry, and the Comit index shed 15.57 or 2.6 per cent to 594.18.

Bank privatisation candidates came under pressure following the news that IRI, the state holding company, planned to sell them off by public offering and not through a competitive tender.

BCI shed L234 or 4.4 per cent to L5,126 while Credito Italiano was L25 easier at L2,700.

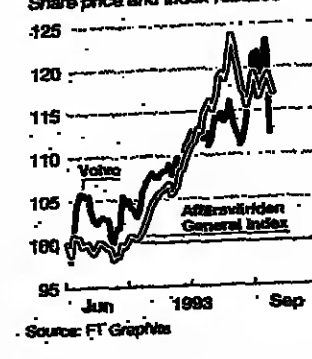
Ferruzzi, however, shrugged off local press reports that details of its rescue plan would be delayed until the end of this month. The shares continued their recent advance, rising L41 or 10 per cent to L452.75.

ZURICH spent an uncertain session, with investors mixed on the prospects for lower interest rates and the SMI index dipped 5.5 to 2,397.9.

Nestlé registered shares were steady at SF11.072 in active trading with analysts expecting a moderate growth in half year profits to be announced today.

STOCKHOLM retreated further as Volvo Bs lost another

## Volvo B shares



SKr11 to SKr447. The Affarsvärden general index declined 12.3 to 1,272.1 in turnover of SKr1.3bn.

COPENHAGEN took little notice of a 0.5 point cut in the central bank's key 14 day rate to 10 per cent with analysts suggesting that further cuts would be needed before the present, positive undertone turned into a rally. The KFX index shed 0.9 to 98.96 in moderate turnover of DKr600m.

VIENNA fell 4 per cent amid further profit-taking after the market's strong run and on renewed concern ahead of results due shortly from OMV. The ATX index tumbled 41.26 to 970.31.

OMV shed Sch42 to Sch75, after a day's low of Sch75, as local press comment suggested that the group faced heavy losses and could be forced to restructure its chemical operations.

ATHENS bounced back after Tuesday's slide as the prospects of an early election receded. The general index which was 2 per cent higher for much of the day received a late fillip which took it 40.25 or 4.9 per cent higher to 861.15 at the close.

ISTANBUL continued in record-setting mood, in spite of some late profit-taking after an early rally which saw the composite index over the 13,000 level. The index finished 198.4 or 1.6 per cent higher at 12,723, for a 9.2 per cent rise since the start of the week.

ASIA PACIFIC

# Nikkei cautious as Hong Kong sets record

Tokyo

INCREASING caution following a spate of downward corporate earnings revisions depressed activity, and the Nikkei average lost marginal ground, writes Emiko Terazono in Tokyo.

The 225-issue index ended 43.91 easier at 20,918.19, its third consecutive decline. Small-lot selling by individuals, investment trusts and securities houses pulled the index down.

Investors reacted to Tuesday's announcement by Nippon Steel, which now expects to fall into a loss for the current business year.

The index slipped to the day's low of 20,816.78 in the morning. However, afternoon support from arbitrage-linked buying pushed it up to the session's high of 20,996.50.

Volume totalled 238m shares, against Tuesday's 251m. Foreign investors, who had previ-

ously been active buyers, held the sidelines.

Declines outscored rises by 566 to 391, with 193 issues unchanged.

The Topix index of all first section stocks lost 6.96 at 1,682.82, but in London the ISE/Nikkei 50 index firmed 1.09 to 1,288.57.

Reports that Nikko Kyodo, a leading mining and oil refiner, had decided to liquidate its US subsidiaries depressed sentiment. The company expects to post losses of Y90bn due to the liquidation.

Nikko Kyodo was the most active issue of the day, falling Y35 to Y510. Other oil issues fared poorly, with Mitsubishi Oil shedding Y20 to Y1,030 and Showa Shell Sekiyu Y10 to Y1,260.

Steel companies were weak on the unexpected downward earnings revision by Nippon Steel, announced on Tuesday. The company said it would skip its interim dividend and would post a pre-tax loss of

Y15bn for the current year to next March.

Other leading steel issues, including Kobe Steel, NKK, Kawasaki Steel and Sumitomo Metal Industries, are scheduled to make similar announcements tomorrow.

Nippon Steel retreated Y7 to Y380 and Kobe Steel declined Y9 to Y308.

Nippon Telegraph and Telephone fell Y11.00 to Y390,000, declining for the fifth trading day in a row.

The company said it would cut its long distance call rates, and it revised down its revenue for the current year by Y100bn.

Ink and printing concerns were higher. Dainippon Ink moved up Y4 to Y544 and Dai Nippon Printing gained Y20 to Y1,710.

In Osaka, the OSE average

Roundup

MIXED messages emerged from Pacific Rim markets.

HONG KONG investors decided that they had been marking time for long enough and a wave of afternoon buying took the Hang Seng index up 80.42 to a record close of 7,607.13.

The rise came as Sino-British friction took a back seat to comments by Mr Zhu Rongji, the Chinese vice-premier, that the country's economic growth was likely to be 13 per cent this year, in spite of the current austerity policy.

Hopewell, the most active issue, advanced 20 cents to HK\$5.50 and was followed by Jardine Matheson, which gained HK\$2.50 at HK\$65. Hong Kong Electric moved ahead 60 cents to HK\$21.40.

MANILA was helped by heavy foreign buying of Manila Electric, and the composite index rose 4.28 to 1,886.28.

NEW ZEALAND benefited from better than expected Air New Zealand results, enabling the NZSE-40 capital index to overcome early weakness and close 4.56 higher at 2,000.35. Air New Zealand rose 13 cents to a year's peak of NZ\$2.75.

AUSTRALIA took its lead from the sharp falls on Wall Street and in the hulk price, and shares were marked lower from the opening. Some support emerged for blue chips at noon before investors again took profits towards the close. The All Ordinaries index finished 28.3, or 1.4 per cent, lower at 1,939.5, while the golds market ended 127.8, or 7 per cent, down at 1,897.2.

Among gold stocks, North Flinders Mines shed 70 cents to AS\$12.50 and Plutonic Resources fell 31 cents to AS\$6.60.

SINGAPORE was lower for the second consecutive day as profits were again taken after the recent sharp rises. The Straits Times Industrial index fell 7.74 to 2,028.96.

# Foreign demand fuels Brazil

THERE were good performance scores from Latin American markets, *Reuters reports.*

BRAZILIAN equities were strong at mid-session, the Bovespa index adding 471 at 12,089 on foreign demand.

Equities have been attracting interest after the government announced its intention to tackle inflation, currently at a monthly level of 34 per cent, by adopting fiscal reform measures and accelerating the privatisation programme.

MEXICO's IPC index was slightly weaker on profit-taking, off 2.18 at 1,947.33, after Tuesday's record high, largely due to strength in Telefonos.

BOGOTA also set an all-time peak on Tuesday, the IBB index rising 3.45 to 575.37.

BUENOS AIRES encountered profit-taking on Tuesday, ending six consecutive days of gains. The Merval index shed 10.8 to 477.93.

# Strong week for Latin American markets

By John Pitt

Latin America's emerging markets performed well last week, with Colombia and Venezuela in particular coming to the fore, while there were also good rises in the Philippines, Malaysia and Portugal.

US funds have been flowing into Latin America recently, seeking out underperforming markets and attracted by the general recovery in economic fundamentals.

Mr Federico Laffan of Latin American Securities comments that Colombia has been driven higher recently by a flow of funds from large US institutions. As a consequence turnover has risen from around \$2.5m a day in the first half of the year to some \$4m.

Foreign money, he adds, has been attracted to Colombia since equities there have lagged behind other regional markets, while prices are also cheap.

Inflation has been coming down, and GDP growth is forecast for 1993 at between 4 to

## EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms			Local currency terms		
		Sep 03 1993	% Change over week	% Change over Dec '92	Sep 03 1993	% Change over week	% Change over Dec '92
Latin America	(11)	714.53	+5.1	+23.2	438,451.77	+5.1	+23.4
Argentina	(44)	222.23	+5.0	+77.8	30,328,512.55	+15.1	+1,594.3
Brazil	(20)	434.85	+0.8	+3.9	711.19	+0.6	+10.9
Colombia	(8)	478.78	+7.0	+12.8	685.43	+6.8	+12.1
Mexico	(58)	735.54	-0.2	+8.8	997.15	-0.1	+8.7
Venezuela	(8)	485.99	6.8	-6.5	1,049.30	+7.8	+12.4
East Asia							
South Korea	(130)	93.20	-0.7	-5.0	99.01	-0.8	-2.7
Philippines	(11)	183.95	+3.6	+37.8	245.34	+10.5	+51.9
Taiwan, China	(76)	79.81	-2.2	+6.2	79.96	-2.2	+14.7
South Asia							
India	(61)	50.22	-0.5	-3.7	69.83	-0.4	+4.8
Indonesia	(31)	93.86	-0.1	+59.9	107.17	+0.1	+62.9
Malaysia	(61)	241.03	+4.6	+47.4	226.72	+4.7	+43.7
Pakistan	(6)	218.87	-1.0	+8.2	295.44	-1.0	+27.4
Thailand	(52)	275.45	+3.5	+19.6	274.96	+3.5	+17.8
Euro/Mid East							
Greece	(17)	246.12	-0.8	+26.0	382.78	-2.7	+34.4
Jordan	(5)	155.53	-0.8	+33.1	221.73	-0.8	+33.7
Portugal	(16)	110.26	+4.0	+42.8	126.73	+2.2	+62.6
Turkey	(31)	138.92	-2.9	+108.7	759.67	-2.2	+163.3

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1991=100 except those noted which are: (Y) Feb 1 1991; (B) Jan 3 1992; (C) Jan 3 1992; (J) Jan 4 1991; (S) Nov 4 1992; (S) Sep 28 1992; (M) Jan 1 1991; (M) Aug 4 1993

4.5 per cent, after 3 per cent in 1992, when the economy was affected by a severe drought. Among the smaller European bourses, Portugal has enjoyed a rally since May, coinciding with the devaluation of the escudo. According to the data provided by the IFC, an affiliate of the World Bank, the market has shown a 43 per cent improvement on the year to date in dollar terms, making it the fourth best performer in the list.

Mr John Ferreira of Carnegie International says initial gains in the market were led by US investors, attracted by lower interest rates and good earnings prospects from 1995.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

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NATIONAL AND REGIONAL MARKETS	TUESDAY SEPTEMBER 7 1993								MONDAY SEPTEMBER 8 1993								DOLLAR INDEX	
	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield		
Australia (88)	144.58	+0.9	138.97	95.05	121.07	147.72	+0.4	3.46	143.24	138.08	94.35	120.05	147.20	148.84	117.39	125.36		
Austria (17)	179.39	-0.8	172.42	117.93	150.20	150.38	-0.4	1.28	180.43	175.18	118.85	151.22	150.99	180.43	131.18	158.82		
Belgium (42)	151.43	-0.3	145.55	99.54	128.78	130.14	-0.4	4.40	151.89	147.47	100.04	127.29	130.72	158.78	131.18	145.87		
Canada (101)	124.30	-2.2	118.47	81.71	104.07	110.17	-2.4	2.85	127.03	123.34	83.67	106.46	122.18	130.38	111.41	126.82		
Denmark (22)	232.42	+0.4	223.39	152.80	194.60	208.82	+0.4	1.08	251.42	224.69	152.43	193.95	208.07	232.42	186.11	220.08		
Finland (23)	108.01	+0.7	103.82	71.01	90.44	130.08	+0.9	0.81	107.26	104.14	70.85	89.89	128.87	118.55	65.50	53.66		
France (67)	169.50	-0.6	162.92	111.42	141.91	150.78	-0.8	3.08	170.50	165.54	112.30	142.88	151.88	170.50	142.72	165.26		
Germany (80)	127.38	-1.0	122.44	85.78	108.68	108.68	-1.1	1.97	128.67	124.93	84.76	107.83	128.77	101.59	121.47			
Hong Kong (55)	286.35	+0.5	286.76	196.13	249.82	298.57	+0.4	3.33	298.97	288.33	195.60	248.89	295.27	301.61	218.82	294.14		
Ireland (15)	172.34	-0.4	165.86	113.30	144.30	158.78	-0.7	3.31	173.06	168.02	113.99	145.03	168.99	173.06	129.28	158.91		
Italy (70)	154.45	-2.6	152.22	93.00	93.17	98.26	-2.1	1.85	157.42	155.17	93.09	94.88	90.14	78.83	53.78	39.43		
Japan (70)	161.48	-0.2	155.19	106.15	135.21	106.15	-0.4	0.78	161.78	157.08	106.56	135.60	108.58	165.91	100.75	113.72		
Malaysia (60)	410.47	+0.4	394.53	289.83	343.68	402.65	+0.4	1.72	408.39	397.09	289.37	342.75	400.85	410.47	281.96	386.41		
Mexico (10)	1758.01	-0.1	1689.73	1165.72	1491.57	9879.74	-0.2	0.82	1760.32	1709.13	1158.46	1487.26	1598.49	1768.16	1410.30	1304.20		
Netherlands (24)	186.58	-0.3	173.53	122.86	157.23	153.88	-0.4	3.32	187.18	175.14	123.29	156.88	154.46	187.18	140.38	187.16		
Norway (28)	150.81	+0.8	146.18	100.00	117.93	129.65	+0.8	3.10	151.27	146.18	100.00	117.93	129.65	150.81	140.38	187.16		
Norway (28)	175.84	-0.6	169.01	115.80	147.24	168.44	-0.1	1.57	177.15	172.10	116.89	148.47	168.56	177.31	137.71	143.83		
Sweden (38)	290.53	+0.0	279.25	189.00	243.26	214.62	+0.1	1.81	290.46	282.01	181.32	243.42	214.50	290.53	207.04	193.92		
South Africa (38)	183.41	-0.2	176.82	120.37	153.56	192.82	-1.3	2.68	188.45	182.56	124.12	157.32	185.23	193.25	147.24	182.00		
Switzerland (50)	140.45	+0.7	135.00	123.84	117.80	138.76	+0.7	4.08	138.94	135.33	81.94	119.08	140.45	138.94	140.45	145.19		
Sweden (38)	290.51	-0.6	182.86	125.04	252.26	222.80	-0.6	1.51	191.35	185.79	125.04	160.37	224.14	192.28	148.70	177.82		
Switzerland (50)	137.18	-0.6	131.86	90.19	114.88	120.51	-0.4	1.80	136.41	132.45	89.86	114.34	120.25	138.04	108.81	117.73		
United Kingdom (218)	191.03	+0.4	183.61	126.57	159.94	183.61	-0.8	3.93	190.23	185.15	125.32	159.46	184.75	191.03	162.00	184.75		
United Kingdom (218)	187.45	+0.6	187.43	126.57	159.94	183.61	-0.8	3.40	190.23	185.15	125.32	159.46	184.75	191.03	162.00	184.75		
France (67)	158.83	-0.2	152.76	104.48	133.08	146.82	-0.6	3.03	158.16	154.56	104.85	133.42	147.72	159.19	133.92	146.82		
Norway (28)	180.10	-0.2	173.10	116.40	145.59	184.32	-0.2	1.33	180.49	173.24	116.88	151.26	184.66	180.10	142.13	182.00		
Sweden (38)	165.44	-0.1	159.01	106.76	138.52	113.82	-0.3	1.04	165.82	160.80	109.09	138.80	113.98	168.80	105.88	117.82		
Europe-Pacific (143)	182.89	-0.1	159.33	106.82	138.18	127.32	-0.4	1.84	182.89	180.10	107.26	138.48	127.87	182.89	117.26	130.00		
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